CHAPTER-I

INTRODUCTION

1.1 Background of the Study

For the development of a country, economic development is one of the major sectors. For economic development, financial sector plays foremost and vital role, the financial institutions collects funds from the customers by paying lower percent interest & invest it to large industries & other business sector by changing higher percent interest. The participation of private financial institutions play even more important role for the economic development. Beside the economic sector, social culture, industrial and technology sector are also should be strong for the development and progress of a country.

Due to the early stage of economic growth and capital market condition, our country has not been able to achieve the desired level of financial prosperity. The main objective of financial institutions is to earn profit by proper utilization of funds and resources. The financial institutions can be of different types, established with the capital of general public in form of equity share capital. Among them the insurance company is one. This research has intended to study the dividend policy and practices of some of the insurance companies conducting business in Nepal

Security is one of the fundamental needs of human being. Everybody wants to be safe and secured but life is full of risks and uncertainties. Thus, the concept of insurance has been developed to reduce the effects of those risks and uncertainties.

Insurance is defined as a co-operative device to spread the loss caused by the particular risk over a number of persons, who are exposed to it and who agree to ensure themselves against that risk. Risk is the uncertainty of financial loss. Insurance is a social device for eliminating or reducing the cost to society to certain type of risk.

“Insurance is a contract where one party (the insurer) agrees to pay the other party (the

insured or his beneficiary) a certain sum called premium upon a given contingency (the risk) against which insurance is sought", (Mishra, 1996). Thus insurance safeguards the interest of people from uncertainty by providing certainty of payment at a given contingency. Insurance companies constitute one of the most important components of financial structure. They play two vital roles in the economy, safeguard against the risk of loss of property and life and accumulation of resources. The former role is unique to them while the latter is also significant because they mobilize funds of long-term nature.

Insurance company is an institution which accepts the premium for specific probable events and pays on the loss. Insurance company is a firm legally registered as per the state rule and regulation (insurance act) and insures the insured to make payment to a specific event or loss. Like the commercial banks, insurance companies are also responsible and contribute for the economic growth of the nation. They attract people from door to door to insure against the possible loss and invest the fund to more productive sectors.

Insurance companies play vital role for the economic development of the nation as well as for the world's economy. Whether the country is developed or under-developed, it is very important to mobilize the fund among different investment sectors. Though the history of insurance company is not very old in Nepal they have come a long way to reach the present position. The concept of insurance had been developed in ancient period in Nepal. The system of maintaining 'Guthi' can be taken as the beginning point for the development of insurance in Nepal. The income from such Guthis was used to build building and repairing temple and so on. But now they have been converted into commercial phenomena.

The history of modern insurance company began since 1947 with the establishment of company named as "Maal Chalani Ra Bima Company and was renamed as Nepal Insurance and Transport Company" in 1959 (2016 B.S). At that time, the company conducted the transportation services along with the insurance. The company was renamed as 'Nepal Insurance Company Limited' since 2048 B.S. From its establishment the companies to carry out life insurance business till 2024 B.S. The Government established 'Rastriya Bima Sansthan (RBS) Private Limited in 1968 (2024 B.S) under the company act. Later the

Government enacted Rastriya Bima Sansthan act 2025 and renamed it in Rastriya Bima Sansthan as government enterprise. In this way, this is the first life insurance company, which is providing life and general insurance services throughout the country. When the government embarked on financial liberalization program with attitude towards liberal entity of private corporate bodies, since then there has been some progress in the establishment of insurance companies in Nepal. At present 25 insurance companies are operating in Nepal. Among them nine are life insurance companies and sixteen are non life insurance companies. They operate as per the norms and values of Insurance Act 1992 (Act No.42 of 2049 B.S) and Insurance Rules 1993 (2049 B.S.). These companies perform the works of fund creation, underwriting insurance of life and non-life property for the best security against the specified or non-specified risk (third party insurance) (Bhandari, pp. 355-362).

1.2 Introduction of the Study

Development of a nation depends on its economic growth. Insurance business plays vital role in the economic growth of the nation. Insurance provides protection against the loss of goods and properties in exchange for a fixed premium. It is worth noting, the premium is a very small amount in comparison to the value of property at risk. Business activities can be carried out without hesitation because insurance provides certainty of payment in case of loss. It ultimately leads to the economic progress in the country. It collects small amount of money in the form of premium from individuals and organizations. Thus, there is capital formation. Insurance company invests the capital and utilizes it in different productive sectors of the country. It may invest the funds in the securities issued by government and other non-governmental organizations in the country. It also issues shares and debentures to the public with the hope of capital gain and dividend.

Dividend is the earnings or profit distribution to the shareholders by a company upon the orders of its board of directors. The dividend, which is distributed to its shareholders, may be in cash, shares and securities or a combination of these. Dividend paid on equity shares is called equity dividend and on preference shares is called preference dividend. The dividend policy of the company is the division of its profits between dividend and retention in the

business. Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of fund for financing corporate group, but dividends constitute the cash flow that accrues to stockholders.

The third major decision of the firms is its dividend policy, the percentage of earnings it pays in cash to its stockholders. Dividend payout, of course, reduces the amount of earnings retain in the firm and affect the total amount of internal financing. The dividend payout ratio obviously depends on the way earnings are measured for case of exposition; we use account net earning but assume that these earnings can form true economic earnings. In practice net earning may not confirm and may not be appropriate measure of the ability of firm to pay dividends (Vanhorn, 2000: p. 305).

Dividend Policy refers to the issue of how much of the total profit a firm should pay to its stockholders and how much to retain for investment so that the combined present and future benefits maximize the wealth of stockholders. The dividend policy, however, not only specifies the amount of dividend, but also the form of dividend, payment procedure etc. In general, dividend policy is concerned with the following matters:

- Amount of dividend to be paid- the policy outlines the basis to determine the amount of dividend to be paid. This, itself, decides the proportion of earnings to be retained.
- Form of dividend – Cash dividend and / or stock dividend.
- Payment procedure
- Stock Repurchase and stock splits (Pradhan, R.S. (1992). *Basics of Financial Management.* Kathmandu: Educational Enterprises (P) Ltd. p. 376.

All the aspects and questions related to the payment of dividend are contained in a dividend policy. Retention of profit increases the equity capital. Therefore, it affects the financial structure, the flow of funds, corporate liquidity and investors' attitudes.

According to the law, dividend should be declared out of net profit. The net profit for the purpose of dividend = Revenue – (Total expenses + Depreciation on fixed assets and fluctuations of the value of assets + Taxes + Past losses written off + Realized amounts

transfer to reserve), (Upadhyaya,1985) on expected profit like non receiving profits on sale of fixed assets or on redemption of long tem liabilities should not be distributed as dividends.

There are different forms of dividend i.e. company can distribute the dividend in different forms like cash, stock repurchase and stock split etc. Some of Nepalese companies are paying stock dividend, which is a growing practice. Cash dividend is the most popular and widely used forms of dividend.

As there has been the number of insurance companies established, the present study aims to make comparative evaluation on dividend practices of the listed insurance companies considering Premier Insurance Company, Himalayan General Insurance Company, Sagarmatha Insurance Company, Allience Insurance Company, United Insurance Company, Everest Insurance Company and NECO Insurance Company Ltd.

1.3 Statement of the Problem

Whether the insurance companies of Nepal have satisfactory result about dividend decisions or not, it is partly due to the government rules and regulations acting and reacting in the financing operations. But there is no limit to the identification of the problems about dividend policy and practices that are visible in Nepalese Insurance Companies.

It seems that there is no any proper relationship between dividend and the quoted market price of share exists. Distribution of the return in term of dividend returns of Insurance companies does not seem to reflect in the market price of the shares. This fact inspires the researchers to study the factors that affect the dividend decision and valuation of shares. However the dividend is consider as the most popular weapon for the attraction of investors and to reflect the firm's healthy position in the capital market. Under the prevalence of these situations, this study attempts to deal with the following issues.

- Are the Insurance companies paying larger dividends, in good financial position?
- What kind of dividend policy do Nepalese insurance companies follow?
- Whether the insurance companies have uniformity in dividend distribution policy?

- Does the dividend decision of the insurance companies affect the market price of the shares?
- Whether there exist the relationship between dividend with market price per share earning per share, book value per share, net worth, net earning and current ratio of the insurance companies?

1.4 Objectives of Study

The main objective of this study is to seek the answers for above questions. The answers for above questions can be obtained through a detailed study of dividend policy practices. Therefore, the major objective of this study is to find the dividend policy adopted by the insurance companies and its practice in Nepal. The major objectives of the study are as follows.

- To examine the relationship of dividends with each of the followings; market price per share, earning per share, book value per share, net worth and net earning of the insurance companies.
- To analyze the impact of dividend on share or stock price.
- To analyze the factors affecting dividend policy of insurance companies.
- To provide the workable suggestion and possible guidelines to overcome various gaps based on the findings of the analysis.

1.5 Significance of the Study

The history of insurance company in Nepal is very short. The first insurance company of Nepal is Rastriya Bima Sansthan, which was established on 15th December 1968 A.D. After that, numbers of insurance companies have been established. At present, 25 insurance companies are in existence. As insurance business is growing in Nepal, people are attracted to invest in such companies' shares for the purpose of getting greater returns. Dividend decision is an important instrument that helps to the investor decide whether to invest in a particular firm or not. So, the dividend policy of the company has become an efficient way to attract new investors and maintain goodwill of the company. In capital market the return can be earned by means of dividend and capital gain. But due to the lack of enough knowledge investors are investing using trail and error method. So, the present study will

make the shareholders and investors aware of dividend practice of the insurance companies. Therefore, considering all these facts, this attempt of analyzing dividend policy and practices of Insurance companies of Nepal provides some guidelines to investors, insurance companies, policy maker and future researchers as well. Apart from it, this study will be of interest to the researchers and academicians.

1.6 Limitation of the Study

The main objective of this study is to fulfill the partial requirement of MBS course of T.U. So, the study cannot cover all the dimensions of the subject and cannot penetrate to the extreme depth. Therefore the limitations of this study are as follows:

- Among the various insurance companies, only eight insurance companies are selected as sample for the study because of limited time and resource factors. The names of insurance companies are: PICL, HGICL, SICL AICL, UICL, EICL and NECOICL.
- The study is limited to the dividend policy and practices of listed insurance companies. So the study considers only those factors, which are directly related to dividend decision.
- This study covers the recent period of six years 2002/2003 to 2007/2008.
- This study is based on secondary data.
- Only selected financial and statistical tools are used for analysis.
- The recommendation may only be applicable to sampled insurance companies, based on the findings of analysis.

1.7 Organization of the Study

In this study, only five chapters are included which are as follows:

Chapter I

deals with the introduction that includes background of the study, introduction of the study, profiles of the selected insurance companies, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter II

is review of literature, it includes the conceptual framework and the reviews of major studies i.e. review of books, review of journals and review of previous thesis.

Chapter III

explains the research methodology used in the study, which includes research designs, nature and sources of data, population and samples, method of financial analysis and statistical analysis.

Chapter IV

is the heart of the study. This chapter includes presentation and analysis of data using various financial and statistical tools. Major findings will also be presented in this chapter.

Chapter V

is concerned with summary, conclusions and recommendations. Bibliography and appendices will be presented at the end.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Dividend refers to that portion of a firm's net earnings, which are distributed to the shareholders in return of their investments in share capital. In other words dividend is a periodic payment made to the stockholders to compensate them for the use of and risk to the invested funds.

A major decision of financial management is the dividend decision in the sense that the firm has to choose between distributing the profits to the shareholders and plugging them back into the business. Dividend decision must consider the overall financing decision of the firm.

Expected cash dividends are the key return variable from which owners and investors, determined share prices. So, it is necessary for the firm to adopt an effective and relevant dividend policy. Directors of the firm have to meet periodically to decide whether to pay dividend and to determine the amount and forms of dividend payment. Dividend policy affects the financial structure, the flow of funds, corporate liquidity and investor's attitude. It is related to the overall financing decision as dividend payout reduces the amount of retained earnings in the firm and affects the total amount of internal financing
(Gautam, 'Dividend Policy': Hand out).

According to one school of thought, dividends are irrelevant so that the amount of dividends paid has no effect on the valuation of a firm. On the other hand, certain theories consider the dividend decision as relevant to the value of the firm measured in terms of the market price of the shares.

Dividend policy is recording evidence of shareholders filing cases against the corporation imposing restriction in dividend payments as matter of nature of separation between

ownership and control. “Since dividend would be more attractive to stockholders one might think that there would be a tendency for corporation to increase distribution but one might well equally pressure that cash dividend would be reduced somewhat with an increase in net after tax dividends still available to stockholders and as increase in retained earnings for the corporations.”(Smith Dan Troop, Relief from double Taxation of ‘Dividend Income’, (Haward Business Revise Boston, Jan-Feb 1997: pp 90-91).

The internal revenue service code has defined dividend as “any distribution of property made by a corporation to its shareholders out of its earnings after tax. Most popular form of dividend is cash, which reduces the cash balance of the company’’ (Gautam, ‘Dividend Policy’, Hands out).

What and how much it is desirable to pay dividend has always been a controversial topic, because shareholders expect higher dividend from corporation. However corporations ensure towards setting aside funds for maximizing the overall shareholder’s wealth (Ibid). Therefore, “Dividend Policy is wise policy to maintain a balance between shareholders’ interest with that the corporation growth from internally generated fund.”(Shrestha, pp 640-41).

The fund that could not be used up due to lack of investment opportunities should be better paid off as dividends since shareholders might have investment opportunities to employ the funds elsewhere. “Financial management is, therefore, concerned with the activities of corporation that a feet the well being of Shareholders. That well being can be partially measured by the dividends received but a more accurate measurement is the market value of stock.”(William H. Dean, 1973: P-1).

The dividend policy adopted by the firm should be such that strikes a proper balance between the financing decision and wealth maximizing decision. There is negative relation between retained earnings and cash dividend. When firm retain earning for providing necessary additional equity capital, the amount of dividend decreases which may affect the market price of share adversely. However, this leads to increase the future earnings per

shares. Thus, dividend decision is one of the major decisions of managerial finance as it directly or indirectly determines and affects the maximization of the wealth of owners or shareholders.

2.2 Forms of Dividend

Business organizations need to use different forms of dividend in view of the policies and objectives, which they implement. The major forms of dividends are cash dividend and stock dividend. In Nepalese context, "The type of dividend that corporation follow is partly a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plan and policies",(Shrestha ,TU 1980: p-670). Ordinary dividends are paid in cash however dividend disbursements may be stock dividends, scrip dividend, property dividends and bond dividends.

2.2.1 Cash Dividend

In Nepalese context, most business organizations pay dividends in the forms of cash. For the declaration of cash dividends, companies should have enough cash in its bank account or have enough liquidity. Cash dividend is the dividend, which is distributed to the shareholders in cash out of the earnings of the company. When cash dividend is distributed both the total assets and net worth of the company decreases and the market price of the share drops in most cases by the amount of the cash dividend distributed(P.G. Hasting,1996: P-730).

2.2.2 Stock Dividend

A stock dividend is the payment of dividend to existing owners in the forms of stock. It is the distribution of additional shares to the existing shareholders. "The firm pay stock dividend either as replacement for a supplement to the payment of cash dividend." (Gitman: P-70). Under this policy, stockholders receive additional share of company in lieu of cash dividend. But in India, bonus shares can be issued in lieu of cash dividend."(Pandey, 1999: P-778). It is the means of re-capitalization of earnings by making shareholders feel that they are getting something of value, yet it keeps funds in the corporation that management cause as it sees fit. By the distribution of stock dividend, the number of shares increases but the proportionate ownership of stockholders

remains the same. The stock dividend is also paid by the company in order to increase the paid up capital. On paying stock dividend, the earning per share, dividend per share and market price per share of the company decreases as well. " A stock dividend has three features (a) the stockholders receive the additional shares of the company paying the dividend, (b) the stockholders do not have to pay for the share received and (c) the distribution of shares accompanied by a reduction in earned surplus."(Bradley, 1974: P-284)

2.2.3 Property Dividend

This involves a payment of assets/property in any form other than cash. This form of dividend may be followed whenever there are assets that are no longer necessary in the operation of the business or in extra ordinary circumstances. Companies own products and the securities of subsidiaries are the examples that have been paid as property dividend.

2.2.4 Scrip Dividend

The company uses this type of dividend when it has earned profit despite the suffering from cash problem. Scrip is a form of promissory note promising to pay the holder at specified later date. Under this type of dividend, company issues and distributes to shareholders, transferable promissory notes which may be interest bearing or non interest bearing.

2.2.5 Bond Dividend

It is the dividend that is distributed to the shareholders in the form of a bond for the purpose of postponing the payment of cash. Company declares the bond dividend in the form of its own bond with a view to avoid cash out flows.

2.3 Theory of Dividend

2.3.1 Residual Theory of Dividend

One school of thought, the residual theory of dividends, suggests that the dividend paid by a firm should be viewed as a residual the amount left after all acceptable investment opportunities have been undertaken.(Lawrence , P-537).

It is residual since shareholders get dividends only when there exits balance of earning after paying fixed obligations and investing in profitable sector or expansion. If the firm has

retained earning left over after financing all acceptable investment opportunities, these earnings then will be distributed to the stockholders in the form of cash dividends. If not, there will be no cash dividends. Due to the flotation costs and tax saving of shareholders, it assumes that the internally generated funds (R.E) are comparatively cheaper than the funds obtained from external sources i.e. issuing new shares.

Thus, dividend policy is influenced by (1) the availability of acceptable investment opportunities and (2) the availability of internally generated capital; the dividends are paid only after all acceptable investment has been financed. According to this concept, dividend policy is totally passive in nature. 'When we treat dividend policy as strictly a financing decision, the payment of cash dividend will passive residual. (Van Horn, 1981: P-306).

2.3.2 Stability of Dividend

Dividend is considered as a desirable policy by the management of the firm regularly even though the amount of dividend fluctuates from year to year. "By stability, we mean maintaining a position in relation to a dividend trend line preferably one that is upwards sloping."(Ibid, P-351). Stability of dividends sometime means regularity in paying some dividend annually, even though the amount of dividend may fluctuate over years, and may not be related withy earning, (I.M Pandey,8th edition.). Shareholders generally prefer stability or regularity of dividends because all other things being remain same, the market price of the share of a company may be higher, if it pays stable dividend overtime. Three of the more commonly used dividend policies are established under stability theory.

I. Constant Dividend Per Share

Constant dividend policy is based on the payment of fixed rupees dividend each year. Companies follow this policy of paying dividend without considering the fluctuation in the earnings of the company. This policy does not imply that the dividend per share or dividend rate will never be increased. When the company reaches a new level of earnings and expects to maintain it, the annual dividend per share may be increased. Investors who have dividend as the only sources of their income prefer the constant dividend policy.

II. Constant Payout Ratio

The ratio of dividend to earning is known as payout ratio. When fixed percentage of earnings is paid as dividend in every year, the policy is called constant payout ratio. According to this policy, if earning fluctuates, dividend amount also fluctuates at the same proportion. It ensures that dividends are paid when profits are earned and avoided when it incurs losses.

III. Stable Rupee Dividend plus Extra Dividend

Under this type of stable policy a sum of amount is paid regularly as dividend. In the boom period extra dividend is paid over and above the regular dividend. And if the normal condition returns the firm cuts extra dividend per share and pays the regular dividend only.

2.4 Factors Affecting Dividend Policy

Dividend decision is the major decision of financial management and the factors affecting dividend decision is one of the main focuses of this study. The firm's dividend policy has the effect of dividing its net earnings into two parts: retained earning and dividends. Most business companies recognize that the shareholders have a desire to receive dividend, although some of the shareholders are interested in the capital gains. But the company's decision regarding the amount of earnings to be distributed as dividend depend on a number of factors. Such affecting factors are as follows, (Weston and Copeland**,** 1989: P-658).

2.4.1 Legal Rules

Legal rules are significant in the sense that they provide the framework within which dividend policy can be formulated. Within their boundaries, however, financial and economical factors have a major influence on policy. As per legal rules, cash dividend must be paid from current year's earnings and stock dividend should retained earnings.

2.4.2 Liquidity Position

The availability of liquidity of a firm is a price factor to be considered in many dividend decisions. Dividends represent a cash outflow. The cash position of the firm is an important consideration in paying dividends. If the firm has already invested sufficient amount in

required assets and has strong liquidity position, at that position the company declares cash dividend. If the firm is growing and fund is required for fixed assets and permanent current assets, the firm may not be liquid and all the profits may be retained in the firm.

2.4.3 Need to Repay Debt

If the firm uses debt capital as well as equity capital in the capital structure, at this situation, they have to pay regular interest as well as repayment of principal at the maturity is essential. Need to such payment affects the liquidity position of the firm and they may not be able to pay dividend to their valuable shareholders. It means the firm may require the whole earnings for repayment of debts along with interest.

2.4.4 Restriction in Debt Contracts

The restriction may be employed by the lenders to preserve the firm's ability to service debt; usually it is exposed as a maximum percentage of cumulative earnings. When such restriction is in force; it naturally influences the dividend policy of the firm. Sometimes the management of the firm welcomes the dividend restriction imposed by lenders because then, it does not have to justify to shareholders, the retention of earnings. It needs only point to the restriction.

2.4.5 Rate of Asset Expansion

If the firm is rapidly growing, it needs more funds for financing assets expansion. In this position, it is necessary to retain the firm's whole earning in the business to fulfill its need of funds and cannot be able to pay dividend to its shareholders.

2.4.6 Profit Rate

When the firm's profit rate is high, it indicates that the firm's earning per share is also high. Such company's dividend rate will automatically be high even if it retains certain proportion of earnings because DPS depends on EPS.

2.4.7 Stability of Earning

A firm that has relatively stable earnings is often stable to predict approximately what its

future earnings will be. Such a firm is, therefore, more likely to payout higher percentage of its earnings, than is a firm with fluctuating earnings. The unstable firm is not certain about the realization if expected profit in the subsequent years so, it is likely to retain a high proportion of current earnings. A lower dividend will be easier to maintain if the earnings fall off in the future.

2.4.8 Access to the Capital Markets

A large, well-established firm can easily enter in the capital market and can collect the capital and other forms of external financing easily. Greater the ability of the firm raise equity or debt funds from capital markets, such firms are likely to pay higher dividends on the contrary. Firm that must retain more earnings to finance its operations are likely to pay small dividend. A well-established firm is, thus, likely to have a higher dividend payout rate than is a new or small firm even if it is not enough liquid.

2.4.9 Control

Dividend policy may also be strongly influenced by promoter shareholder's desire to retain control objective of the firm. As a matter of policy, some corporations expand only to the extent of their internal earnings. This policy is defended on the ground that raising funds by selling additional common stock dilutes the control of such group in the company. At the same time, selling debt increases the risk (financial leverage) to the present owners of the company. Reliance on internal financing reduces the dividend payout.

2.4.10 Tax Position of Shareholders

The tax position of shareholders also affects the dividend policy of the firm. For example, companies owned largely by taxpayers in high income tax brackets tend towards lower dividend payout because they can enjoy tax saving by the retention of earning, which they require to pay when receiving the dividend. Companies owned by small investors tend toward higher dividend payouts; sometimes there may be a conflict between the stockholders in high income tax brackets and those in lower tax brackets.

2.5 Legal Rules and Restriction on Dividend Policy in Nepal

In Nepal, the Nepal company act-1997 makes some legal provisions for dividend payments. They are explained as below (Endi Consultants Research Group, 1997: P-43).

Section 2(M)

States that "Bonus shares" (Stock dividend) means a share issued as additional share to shareholders by capitalizing the surplus from the profit or the reserve funds of a company. The term also denotes an increase in the paid up capital of the company by capitalizing the surplus or reserve funds.

Section 47

Prohibited company form purchasing it's own shares. This section states that no company shall purchase its own shares or supply loan against the security of its own shares, (Ibid, P-60).

Section 137

Bonus share and sub-section (1) states that the company must inform the office, before issuing bonus shares under subsection (1) this may be done only according to a special resolution passed by the general meetings,(Ibid, P-60).

Section 140

Sub section (1) of section 140 mentions that except in the following circumstances, the dividend shall be distributed to the shareholders within 45 days of the decision made to pay the dividend, (Ibid, P-94 -95).

- In case, any law prohibits the distribution of dividend.
- In case, the right to receive dividend is subject to dispute.
- In case, dividend cannot be distributed within the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.

Sub-section (2) of section 140 stated that in case dividends are not distributed within the

time limit mentioned in sub section (1), dividend should be distributed by adding the interest at the rate as prescribed.

Sub-section (3) of section 140 states that only the person currently registered in the register of existing shareholder's at the time declaring the dividend shall be entitled to get the dividend.

The above rule shows that Nepalese law prohibits repurchase of company's own stock, which is against the theories of finance. Repurchase of stock contributes to maximize the firm's wealth by increasing EPS and stock price. Therefore, it is a form of dividend. If the earning of the firm is used to repurchase the stock, shareholders do not receive cash but, they will be benefited due to appreciation in the price of stock. Similarly this provision is essential for the correction of debt dominated capital structure. However, the reason for this kind of provision is not known yet.

2.6 Review of the Journals and Books

2.6.1 Walter's Model

Walter Model on dividend policies and stock prices on 1966. His model supports the doctrine that dividends are relevant. The investment policy of a firm cannot be separated from its dividend policy. He argues that the choice of dividend policy almost always affect the value of enterprises, (Walter,1966:P.26-41). The main point which he emphasized is that there is a significant relationship between the internal rate of return (r) of investment project and its cost of capital (k). The stock price will be enhanced by retention of earnings and will inversely with dividend payout, whenever acceptable investment opportunities exist. Walter's model, thus, relates the distribution of dividends (retention of earnings) to available investment opportunities. So, this approach is based on that the dividend policy can be used to maximize the wealth of stockholders.

The basic assumptions of the Walter's model are as follows:

- All financing is done through retained earnings. The external sources of funds like debt or new equity capital are not used.
- The firm's business risk does not change with additional investments undertaken. It

means that the firm's internal rate of return (r) and its cost of capital (k) are constant.

- All earnings are either distributed as dividend or reinvested internally;
- There is no change in values of earning per share (E) dividend per share (D). The value of E and D remain constant, although there may be change in the model for determining the result.
- The firm has a perpetual life.

Walter has evolved a mathematical formula to arrive at the appropriate dividend decision. His formula is based on a share valuation model, which states:

$$P = \frac{DPS + r/k\ (EPS - DPS)}{K}$$

Where,

P	=	Market price per share
DPS	=	Dividend per share
EPS	=	Earning per share
r	=	The rate of return of the firm's investment
k	=	Cost of equity capital

Walter referred different dividend policies for different types of the firm, they are:

Growth Firms (r>k)

Those are the growth firms whose internal rate of return is greater than the cost of capital. For such firms, the relation between dividend and stock prices is negative. Walter concluded that zero dividends would maximize the market value per share for a growth firm. In other words, value increases as dividend payout ratio declines when r>k and value of firm reaches at the maximum level when dividend payout ratio is zero, thus, their optimal payout ratio is zero.

Normal Firms (r = k)

The firms whose internal rate of return and cost of capital are equal called normal firms. There is no role of dividends on stock price variation. In other words, dividend payout does not affect the value of shares. Either the profits are retained or distributed as dividend it

makes no difference on the value of shares.

Declining Firms (r < K)

This type of firm has higher rate of cost of capital rather than internal rate of return. The relation between dividends and stock prices is positive i.e., increase in dividend per share increases in the stock price. This type of firm referred to as declining firms does not have any profitable investment opportunities. Walter argued, 100% dividend policy would maximize the market price of the share for declining firm.

Thus, in Walter's model, the dividend policy of the firm depends on the availability of investment opportunities and relationship between the firms internal rate of return of cost of capital (k).

Limitations of Walter's Model

Walter's model is not free from limitations. Walter has assumed that the firms are financed by retained earnings only. It can be applicable to only those firms who have financed all the capital by equity. He has assumed that 'r' and 'k', earning per share and dividend per share are constant which is not applicable for Nepalese companies. Rate of return (r) changes with the increase or decrease in investment and cost of capital (k) changes with the risk.

2.6.2 Gordon's Model

Myron J. Gordon conducted another study, (Gordon, 1992). His model supported and concluded that dividend policy of firm affect its value. Unlike Walter's model he argues that DP affects that value of shares even in a situation when the return on investment (k) is equal to the capitalization rate (ke) that is (k = ke). It is assumed that investor have a preference for present dividend to future capital gains under the condition of uncertainty. This argument insisted that an increase in dividend payout ratio leads to increase in the stock prices for the reason that investors consider the dividend yield (D_1/P_0) less risky than the expected capital gain.

This model is based on the following assumptions:

- The firm uses equity capital only.
- No external financing is available so retained earning must be used to finance all investments.
- The internal rate of return (r) and cost of capital (k) are constant.
- The firm and its stream of earnings are perpetual.
- The corporate tax does not exist.
- The retention ratio (b), once decided upon remains constant. This growth rate g = b.r is constant.

According to Gordon, the market value of a share is equal to the present value of future streams of dividends. A simplified version of Gordon's model can be symbolically expressed as:

$$P_0 = \frac{EPS\ (1 - b)}{K_e - b.r}$$

Where,

P_0 = Current price of a share

E = Earning per share

b = Retention ratio

1 – b = Dividend payout ratio

K_e = Capitalization rate or cost of capital

b.r = Growth rate

1st Case, Growth Firm

Here price tends to decline in correspondence with increase in payout ratio or decrease in retention ratio i.e. high dividends corresponding to earnings leads to decrease in share price.

2nd Case, Normal Firm

Share value remains constant regardless of changes in dividend prices, which means dividends and stock prices are free from each other.

3rd Case, Declining Firm

Share price tends to rise in correspondence with rise in dividend payout ratio. It means dividend and stock prices are positively correlated with each other in case of declining firm.

2.6.3 Modigliani and Miller's Study

Modigliani and Miller's 1961 article is the most comprehensive argument in support of the irrelevance of dividends. M – M advocated that dividend policy does not affect the value of the firm. They concluded that the value of the firm depends on the firm's earnings, which depends on its investment policy. And the way how earnings stream is split between dividends and retained earnings does not affect the value. In other words, a firm's value is independent of dividend policy.

The M-M hypothesis of irrelevance is based on the following critical assumptions:

- The firm operates in perfect capital market where all investors are rational, information is freely available, flotation costs do not exist, infinitely divisible securities and no investor is large enough to affect the market price (par share) of security.
- There are no taxes. Alternatively, there are no differences in tax rates applicable to capital gains and dividends.
- A firm has a given investment policy which does not change.
- Risk of uncertainty does not exist.

They presented their argument in the following manner:

Step 1

The market price of a share of the firm in the beginning period is equal to the present value

of dividend paid at the end of the period plus the market price at the end of the period symbolically.

$$P_0 = \frac{1}{(1 + K_e)} (D_1 + P_1)$$

Where,

P_0 = Market price at the beginning or at zero period

K_e = Cost of equity capital (assumed constant)

D_1 = Dividend per share to be received at the end of the period

P_1 = Market price share of share at the end of period

Step 2

Assuming that the firm does not resort to any external financing the market value of the firm can be computed as follows,

$$nP_0 = \frac{1}{(1 + K_e)} (nD_1 + P_1)$$

Where,

n = No. of shares outstanding at zero period.

Step 3

If the firm's internal sources of financing (retained earning) is not sufficient to finance the new investment needs of the firm, in that case issuing the new share is the other alternative. If Δn is the number of newly issued equity share at the end of year 1 at price of P_1 then,

$$nP_0 = \frac{1}{(1 + K_e)} \{nD_1 + (n + \Delta n)P_1 - \Delta nP_1\}$$

Where,

n = The number of shares outstanding at the beginning of the period

Δn = No. of new shares issued at the end of the period

Step 4

If the firm were to finance all investment proposals, the total amount of new shares issued would be given by,

$$\Delta nP_1 = I - (E - nD_1)$$

or, $\Delta nP_1 = I - E + nD_1$

Where,

$\Delta nP1$	=	The amount obtained form the sale of shares
I	=	The total amount requirement of capital budget.
E	=	Earnings of the firm during the period
$(E - nD_1)$	=	Retained earnings
nD_1	=	Total dividend paid.

Step 5

If we substitute the value of nP_1 from equation of step (4) into equation of step (3) we derive equation of step (5) as,

$$nP_1 = \frac{1}{(1 + K_e)} \{nD_1 + (n + \Delta n)P_1 - (I - E + nD_1)\}$$

or, $$nP_0 = \frac{nD_1 + (n+ \Delta n)P_1 - I + E - nD_1}{(1 + K_e)}$$

or, $$nP_0 = \frac{(n + \Delta N) P_1 - I + E}{(1 + K_e)}$$

Step 6

There is no any role of dividend (D_1) in above equation. So, Modigliani-Miller concludes that dividend policy is irrelevant and dividend policy has no effect on the share price.

2.6.4 Lintner's Model

John Lintner in 1956 made an important study highlighting the behavioral aspect of dividend policy in the American context. He investigated a partial adjustment model with respect to dividend patterns of 28 American companies, (Lintner, May 1956: pp 97-113).

He concluded that a major portion of the dividend of a company could be expressed in the following manner.

$$DIV^*_t = p\ EPS_t \quad \text{... (1)}$$

and $$DIV_t - DIV_{t-1} = a + b\ (DIV^*_t - DIV_{t-1}) + e_t \quad \text{... (2)}$$

or, $$DIV_t = a + b\ DIV^*_t + (1 - b)\ DIV^*_{t-1} + e_t \quad \text{... (3)}$$

Where,

DIV^*_t = Firm's desired payment

EPS_t = Earnings

p = Targeted payout ratio

a = Constant relation to dividend growth

b = Adjustment factor relating to the previous period's dividend and desired level of dividends where b<1.

His major findings on the dividend policy were as follows:

- Management of the firm thinks about the proportion of earnings to be paid out.
- Firms generally have target payout ratio in the view while determining change in dividend per share.
- In order to modify the pattern of dividend behavior, investment requirements are not considered.

2.6.5 Chawla and Srinivasan's Study

Chawala and Srinivasan study the impact of dividend and retention on share price. They estimated cross-section relationship for the year 1969 and 1973 at 18 chemicals and in sugar industries. The objectives of their study were,

- To estimate a model to explain the share price, dividend and retained earning relationship.
- To examine the structural changes in estimated relation overtime

- To test the dividend and retained earnings hypothesis.

"To achieve the above mentioned objectives, they used simultaneous equation model as developed by friend and pocket in 1964" the model in its specified form was as follows:

I. Price function

$P_t = f (D_t, R_t P/E (t -1)$

II. Dividend supply function

$D_t = f [E_t, d (t –1), P/E (t–1)]$

Where,

p	=	market price per share
D	=	Dividend per share
E	=	Earning per share
P/E	=	Deviation from the sample average of prices earning ratio
T	=	Subscript for Time.

They used two stage least square techniques for estimation and in case of chemical industry they found the estimated co-efficient had the correct sign and coefficient of determination of all the equations was very high. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in case of sugar industry they found that the sign for the retained earnings negative in both the years. So they left sugar industry for further analysis. For chemical industry, they observed that the coefficient of dividend was very high as compared to retained earnings. They also found that the coefficient of dividend was significant at one percent level in both the years, whereas coefficient of retained earnings was significant at ten percent level in 1969 and one percent level in 1973, (Chawla and Srinivasan, 1987: pp 137 – 140).

Finally, they concluded that the dividend hypothesis holds good in the chemical industry. Both dividend and retain earnings significantly explain the variation in share price in chemical industries.

2.6.6 Van Horne and MC Donald's Study

Van Horne and Mc Donald's conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing on the market value of the firm's common stock. They explored some basic aspects of conceptual framework and empirical tests were performed during the year 1968, for two industries using a well-known valuation model i.e. a cross section regression model. The required dada were collected from 86 electric utility firms included on the COMPUSTAT utility data type and 39 firms in the electronics and electronic component industries as listed on the COMPUSTAT industrial date type, (James C. Vorne and John G. Mc. Donald, 1971: pp.507-519).

They tested two regression models for the utilities industries, which are as under.

First model was

$$P_0/E_0 = a_0 + a_1(g) + a_2 (D_0/E_0) + a_3 (Lev) + u$$

Where,

- P_0/E_0 = closing market price in 1968 dividend by average EPS for 1967 and 1968
- g = Expected growth rate, measured by the compound annual rate of growth in assets per share for 1960 through 1968.
- D_0/E_0 = Dividend payout, measured by cash dividend din 1968 dividend by earning in 1968
- Lev = Financial risk, measured by interest changes dividend by the difference between operating revenues and operating expenses.
- u = Error terms

The Second Model was

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (F_a) + a_5 (F_b) + a_6 (F_c) + a_7 (F_d) + u$$

Where,

F_a, F_b, F_c and F_d are dummy variables corresponding to new issue ratio (NPR) for or groups A through D.

It is notable that they had grouped the firms into five categories A, B, C, D and E by NIR. For each firm the value of dummy variables representing its NIR group is one and the values of remaining dummy variables are zero.

Again, they tested the following regression equation for electronics and electronic components industry.

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (OR) + U$$

Where,

Lev = Financial risk, measured by long term debt plus preferred stock dividend by net worth as in the end of 1968

Or = Operating risk, measured by the standard error for the regression of operating earnings per share on time of 1960 through 1968, and rest are as first model above.

By using these models or methodology, they compared the result obtained for the firms, which both pay dividends and engage in new equity financing with other firms in an industry. They concluded that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividend. But for those in the highest new issue group firms, it made new equity more costly form of financing than the retention of earning. They also indicated that the payment of dividends through excessive equity financing reduces share prices for electronics and electronic components industry. A significant relationship between new equity financing and value was not demonstrated.

2.7 Review of Research in Nepalese Context

There are very few articles published about dividend practices in Nepal, two major studies

are reviewed as follows:

Dr. Manohar Krishna Shrestha published one article, "Shareholders Democracy and annual General Meeting Feedback" in 1992 focus and deals with the policies and financial performance of some financial companies in Nepal.

Prof Shrestha has presented the following findings in his article:

- The cost-push inflation at exorbitant rate has made the shareholders to expect higher return from their investment.
- Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequences of it.
- Erosion in the purchasing power of the income has made it that dividend payment must be directed to enhance shareholders purchasing power by raining dividend payout ratio on the basis of both earning and cost theory.
- Indo-Nepal trade and transit deadlock has become a sort of economic welfare, putting rise in the cost of living index to a considerable extent. This is one of the reasons, which made shareholders to expect higher demand for satisfactory dividend.
- The waiting of five years with peanut dividend in previous year is equally a strong enforceable reason of the bank's shareholders to expect handsome dividend already assured and committed in various reports of the earlier annual general meetings.
- One way to encourage risk taking ability and preference is to have proper risk return trade off by bank's management board in a way that higher return must be the investment rule for higher risk-takers that comprises bank's shareholders. Regarding these difficulties he requests the bank management board to rethink the about the payment of dividend. At the close of paper, Shrestha opinions that the bank is trying its best to satisfy both the shareholders and employees.

Radhe Shyam Pradhan (2003) has focused the study on stock market behavior in a small capital market.

The main objectives of his study were as follows:

- To assess the stock market behavior in Nepal.
- To examine the relationship of market equity, market value to book value price

earnings and dividends with liquidity, profitability, leverage assets turnover and interest coverage.

He has found the following findings as observed by him in connection with dividend behavior:

- Higher the earnings on stocks, the larger the ratio of dividend per share to market price per share.
- Positive correlation between dividend per share and market price per share
- Positive relationship between the ratio of dividend per share to market price per share and interest coverage.
- Positive relationship between dividend payout and profitability
- Positive relationship between dividend payout and liquidity.
- Positive relationship between dividend payout and interest coverage
- Positive relationship between dividend payout and turnover ratios.
- Earnings assets turnover and interest coverage are more variable for the stock paying higher dividends.

Effects on Dividend on Common Stock Price: The Nepalese Evidence

This paper attempts to explain the effect of dividend payment and retained earnings on market price of share in the context of Nepalese companies. A majority of earlier studies conducted in USA mostly indicate that retained earning effect is more than the dividend effect given investment opportunities. A study of Indian evidence shows that their stock market has also started recognizing the impact of retained earnings. This paper investigates these implications in the context of Nepal and finds only limited support for it. The results indicate the customary strong dividend and very weak retained earnings effect on market price of share. The study shows a predominant influence of dividends and an absence of retained earning effect on share price. Dividends are found relatively more attractive among the Nepalese stockholders. They are therefore not indifferent toward dividend and retained earnings, (Pradhan, 2003:pp 23-49).

2.8 Review of Master's Theses

There are some Master's Degree theses prepared on the basis of research about the dividend and dividend policy done by M.B.A and M.B.S. students. Some of them, which are relevant for this study, have been summarized as below:

P.L. Rajbhandari (2001) consideration of data of only five years 1994/95 through 1998/99 six companies taken as sample. Her findings are:

- Average earning per share seems satisfactory to all the sample companies.
- The positive relationship between dividend per share and earning per share.
- The coefficient of correlation between earning per share and market per share is negative.
- The relationship between market price per share and dividend per share is positive. Dividend payment is not consistent for all the sample companies.

The institutions did not seem to follow the optimal dividend policy of paying regular dividend as per shareholders expectation and interest.

First, her study is based on secondary data of past five years 1994/1995 to 1998/1999 which may not be sufficient to present the exact practice of dividend policy of joint venture Banks and Insurance companies based on secondary data only. Second, she did not explain the existing capital market in Nepal.

It is necessary to do comparative study and analysis of dividend policy in micro level for the joint venture Banks and Insurance Companies,

She has not performed the test of hypothesis, especially ANOVA test. Therefore, the financial indicator such as EPS, DPS and DPR results obtained value is significant or not to clarify in her study.

A study conducted by D. Thapa (2003) conducted entitled "dividend Policy and practices, a comparative study between banks and insurance companies in Nepal."

The data are collected from 1996/97 to 2000/2001 of three Banks (Nepal Investment Bank,

Everest Bank and Nepal SBI bank Ltd.) and three insurance companies (United Insurance Company, Everest Insurance Company and Premier Insurance Company Ltd.).

The objectives of this study were as follows:

- To study the current practices of dividend policy in joint venture commercial banks and insurance companies.
- To examine the relationship between dividend and market price of the stock.
- To analyze the relationship of financial indicators e.g. DPS, EPS, DPR and P/E Ratio.
- To analyze the relationship between dividend decision of banks and insurance companies.

The analysis is done on the basis of different financial tools, simple regression and correlation analysis.

The Major findings of his study are:

- Among the major decision of finance, the majority of respondent gave the first importance to investing decision, second to financing and finally gave least importance to dividend decision.
- With respect to factors affecting dividend policy of banks and insurance companies of Nepal, most of the respondents gave first priority to current earning, second priority to liquidity and last priority to past dividend.
- Not a fixed and single policy is being adopted by the banks and insurance companies.
- Majority of the companies paid the cash dividend.

R. K. Shrestha (2004) conducted a study titled on "Dividend Policy and its impact on Stock price, an Empirical analysis on Joint Venture Banks of Nepal.".

The data are collected for the year 1996/97 to 2000/2001 in case of Nabil bank, Standard Charted Bank Nepal Ltd, Himalayan Bank Ltd and Nepal investment Bank Ltd.

The objectives of this study were as follows:

- To examine and evaluate the dividend policy and its impact on stock price of joint venture banks of Nepal.
- To study dividend procedures followed by the joint venture banks in the context of Nepal.
- To find out the relationship of dividend with EPS, DPS, MPS, P/E ratio and D/P ratio of sample firm.

He Found that

- There is no consistency in dividend policy in the sample banks.
- The MPS is affected by the financial position and the dividend paid by the bank. In this regards, the MPS of the sample banks seen to be fluctuated.
- Most of the Nepalese banks from the very past have not done profit planning and investment strategy which have imbalanced the whole position of the banks.
- All the D/P ratio of the sample banks in many years are found more than the popular practice.

D.P. Guragain (2005) research entitled "A study of Dividend and its impact on stock price of Nepalese selected commercial banks." An Unpublished Master's degree thesis, central department of management, Kathmandu, Tribhuvan University. The data are collected from the year 1995 to 2003.

The main objectives of the study were:

- To analyze the impact of dividend in banks stock's price.
- To find out the relationship of dividend with earning and market price of share observing their history over periods along with their degrees and significance.
- To provide effective suggestion based on the basic conclusion.

He Found that:

- There is high degree positive relationship between DPS and EPS in most of the banks

and they are statistically significant as well.

- Relationship between MPS and DPS is found to be low degree positive in most of the banks, but these are statistically insignificant.
- Level of consistency in dividend policy of the banks is very low.
- There is higher role of earning per share to change the dividend per share in most of the banks.

G. Dongol (2006) conducted a study titled "Impact of Dividend Policy on Market Price of Stock." An Unpublished Master's degree Thesis, Kathmandu, Shanker Dev Campus.

The main objectives of this study were:

- To find out the impact of dividend policy on market price or stock.
- To find out if there is any uniformity in DPS, MPS, EPS and DPR of the sample firms.
- To study the prevailing policies and practices regarding dividend in Nepalese firms with reference to the sample firms.
- To find the major factors affecting dividend policy of the firm.

He found that:

- EPS of all the sample banks are fluctuating from year to year.
- None of the sample firms has exactly increasing or decreasing trend of MPS throughout the study period.
- The concern about maintaining or increasing the stock price level also influences the dividend policy of the firm and hence that may make impact upon market price of stock.

R.K. Shrestha (2007) research work entitled "An analytical Study of Dividend Policy and practices of major Joint Venture Banks in Nepal." An Unpublished Master's Degree Thesis, Kathmandu, Public Youth Campus.

The data were collected for the year 2055/056 to 2061/062.

The main objectives of his study were:

- To highlight dividend practices of the Joint Venture Banks.
- To analyze the relationship between dividends per share, other financial indicators

such as earning per share, P/E ratio, market price of stock and net worth etc.

- To examine whether or not dividend influences share price of the three joint venture commercial banks.

He Concluded that

- No individual relationship exists between dividends per share to stock price.
- The correlation between them is also weak and dividend does not directly influence the market price.
- It is expected that the performance of the banking sector will grow further due to low interest on the deposits.

Sushila Dahal (2008) conducted the research on the titled of "Dividend Policy of Commercial Banks in Nepal with special reference to Everest Bank Ltd, Bank of Kathmandu Ltd and Himalayan Bank Ltd." An Unpublished Master's Degree Thesis, Kathmandu, Public Youth Campus.

Major objectives of the study were:

- To identify the type of dividend policy followed by the Banks.
- To highlight dividend practices of the banks in Nepal.
- To analyze the relationship between dividend per share with various important variables such as earning per share, net profit, net worth and stock prices.
- To provide recommendation.

Main Conclusions of the study are:

- Dividend practices of the sample companies show that there isn't a stable dividend policy adopted by any of the companies.
- According to this study, some banks do not pay dividend in many years. Therefore, the price of shares on which the dividend is not paid is on upward trend.
- There are no legal rules binding those companies to pay dividend when they are running at profit. Companies do not have any clear policy towards dividend decision and there is no provision in company act as well.

- These banks follow no specific dividend payment strategy. Payment of cash and stock dividends are made without managerial decision.
- The distribution of dividend has a positive impact on the market price of shares for all three commercial banks.
- More than one economic parameter determines the economic indicators such as DPS and MPS. For example DPS is affected by EPS and NP.

Keshab Dangol (2009) has prepared the thesis in the topic of "Cash Dividend Policy of Joint Venture Commercial Banks in Nepal.", An Unpublished Master's Degree Thesis, Kathmandu Public Youth Campus. He has selected the four sample of joint venture banks by using past five years data from 2003/04 to 2007/08.

The main objectives of this study were as follows:

- To evaluate the dividend payment procedures followed by joint venture Banks.
- To examine the relationship of cash as dividend with various important variables.
- To examine the relationship between market price per share and cash distribution as dividend policy.

The researcher has arrived to the following conclusions:

- Dividend payment is not regular and attractive phenomenon in Nepalese commercial Banks.
- There is no uniformity in dividend distribution policy of joint venture banks in Nepal.
- Change in dividend per share and dividend payout ratio affects the market price per share.
- The relationship between dividend per share and earning per share is positive in all joint venture banks however the relationship between dividend per share with net profit and net worth is found varying in different banks.

2.9 Research Gap

As we know, each research is to find out something by searching again and again, this research has also focused on some particular financial matters to reduce the last research errors. The purpose of this research is quite different from the studies made by the earlier

researchers. Many researchers focused the study in dividend policy and practices of Banks and Finance companies only in comprehensive manner considering the major items. The method of analysis is quite different in this research. Financial and Statistical tools have been used in this research.

This study is little bit different than previous studies in the field of dividend policy and practices of insurance companies in Nepal. Few researches have been conducted in the field of Insurance Business in Nepal. Earlier researcher had focused only on the relationship between dividend and earnings, showing the relationship between dividend per share and market price per share.

Besides, this study on the dividend policy and practices of insurance companies of PICL, HGICL, SICL, AICL, UICL, EICL and NECOICL has covered the latest data, which includes the information from 2002/03 and 2007/08 that makes it the latest version on this study with these insurance companies.

In this way this research has tried to figure out the uniformity of dividend policy in the selected insurance companies in Nepal. And, it is believed that this study will be different from earlier research works.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research is a careful search or inquiry into any subject matter, which is an attempt to discover or to find out proposed information or relationship that would be useful for further application. Therefore, research is that systematic and in-depth study of any particular topic or subject or area of investigation which increase knowledge or improve scientific knowledge.

Research methodology is a systematic way to solve the research problem. It refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the method and process to be followed during the research work, (Kothari, 1990: P-10).Thus, this chapter focuses the research methodology used for the study of dividend policy and practices of selected insurance companies of Nepal. This chapter tries to find out the relationship between dividend and earning per share, net worth, and market price of share and net profit of Insurance companies. Among the twenty five insurance companies in Nepal, the study covers only seven insurance companies as sample.

For the purpose of achieving the objective of the study, the following methodology has been proposed to follow:

- Research Design
- Population and Sample
- Nature and Sources of Data
- Method of data analysis
- Method of presentation

3.2 Research Design

Research design is the conceptual structure within which research is conducted. Before

carrying out a research, the researcher needs to plan which acts as a path in order to achieve the goal. Research design helps researcher to keep track of his action and to know whether he is moving in the right direction to achieve his goal.

Research design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variance, (Kerlinger,.2002:P-300).

In other words, research design is the framework for a study that helps the analysis of data related to study topic. It is a controlling media for collection of data and it helps to collect the accurate information, which is related to dividend policy and practices of selected insurance company in Nepal. For the purpose of analysis, the annual report and financial statement of related insurance companies have been collected an analyzed from the year 2002/03 to 2007/2008

3.3 Population and Sample

The large group, about which the generalization is made, is called the population under study or the universe. Because of the large group size, it is fairly difficult to collect detailed information from each member of population. Rather than collecting detailed information from each member, the small portion is chosen as representation of the population which is called the sample. The procedure of selection of sample from the population is known as the sampling method.

Since, the government has adopted liberal economic policy a number of insurance companies have been established after restoration of democracy. There are twenty five insurance companies providing their service in the life and non-life sector in Nepal, at present.

Due to the time and resource factor, it is not possible to study all the companies. Thus sampling technique is used for selecting the sample insurance companies from population. Out of the twenty five insurance companies, only 17 are listed in Nepal stock exchange. Seven insurance companies among 17 listed insurance companies are selected for the study.

The sample selections for this study are:

- Premier Insurance Company Ltd.
- Himalayan General Insurance Company Ltd.
- Sagarmatha Insurance Company Ltd.
- Alliance Insurance Company Ltd.
- United Insurance Company Ltd.
- Everest Insurance Company Ltd.
- NECO Insurance Company Ltd.

3.4 Nature and Sources of Data

This study is mainly based on secondary data. The data are used to analyze the dividend policy and practices of insurance companies. The data of the different financial and statistical variables related in this topic have been collected basically from annual report and financial statement of concerned companies. Besides this, other supplementary data and information are obtained from the following:

- Annual reports
- Publications of the concerned companies
- Nepal Stock Exchange Limited
- Http. www. Nepal stock. Com
- Http. www. Sebon.com
- Newspaper & Magazines
- Security Board Nepal
- Rastriya Beema Samiti (Insurance Board)

3.5 Method of Analysis

For the proposed of analysis, data are tabulated according to the nature of data and requirement of the study. Statistical and financial tools like ratio analysis, standard deviation, co-relation, regression and ANOVA Test are used for analysis. The relationship between different variable of dividend policy are analyzed and interpreted.

3.5.1 Financial Tools Used

Under the financial tools, the following ratios have been calculated and interpreted.

3.5.1.1 Earning Per Share (EPS)

It measures the return of each equity shareholder. It can be calculated by dividing the net profit after tax by the total number of the common shares outstanding. It reveals the earning power of each share over the period (i.e. one year). It is calculated as under.

$$\text{EPS} = \frac{\text{Net profit after tax}}{\text{Number of common shares outstanding}}$$

3.5.1.2 Dividend Per Share (DPS)

DPS is defined as the ratio of net profit after interest and preference dividend paid to ordinary shareholder to number of common share outstanding. It shows the portion of earning distributed to shareholders on per share basis. It is calculated by dividing the total amount declared as dividend for equity shareholders by the total number of share outstanding.

$$\text{DPS} = \frac{\text{Net profit after Interest and Preference dividend}}{\text{Number of ordinary share outstanding}}$$

3.5.1.3 Dividend Payout Ratio (DPR)

It reflects the percentage of profit distributed as dividend and remaining portion of profit is retained as reserve for the growth of the company. It is calculated by dividing DPS by EPS.

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

3.5.1.4 Price Earning Ratio (P/E Ratio)

Price earning ratio reflects the price, which is currently paid by the market for each rupees of earning, which is currently reported earning per share. The P/E ratio can be calculated by dividing the market value per share by earning per share.

$$\text{P/E Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

3.5.1.5 Dividend Yield Ratio (DYR)

Market price per share is highly influenced by the dividend yield ratio, because a change in DPS usually brings effective change in the MPS. It is calculated by dividing dividend per share by market price per share.

$$DYR = \frac{\text{Dividend per share}}{\text{Market Price Per Share}}$$

3.5.1.6 Market Price Per Share to Book Value Per Share Ratio (MPPS/ BVPS)

This ratio indicates such types of price, which the market is paying for the value that is reported from the net worth of insurance companies. In other words, we can say that it is the price that the outsiders are paying for each rupee shown to the balance sheet of the insurance companies. This ratio is calculated by dividing the market value per share by the book value per share.

$$MPPS/BVPS = \frac{\text{Market price per share}}{\text{Book Value per share}}$$

3.5.2 Statistical Tools Used

3.5.2.1 Mean

An average is the statistical measure of central tendency; it represents the entire series by a single value, which can be substituted for each and every value in the series without causing any change in the total magnitude of the series. So, mean is known as a set of observation that is the sum of all the observations divided by the total number of observations, (Gupta, S.C., pp-236-238).

In such a case of all items are equally important.

$$\text{Mean } (x) = \frac{\text{Sum of observation } (|\phi x)}{\text{No. of observation } (n)}$$

3.5.2.2 Standard Deviation

Standard deviation, usually denoted by the letter ∃(Small sigma) of the Greek alphabet was

first suggested by Karl Pearson as a measure of dispersion in 1893. It is the absolute measures of dispersion of a distribution. It is an improvement over the mean deviation and is free for the defects of other measures of dispersion. The standard deviation is defined as the positive square root of the arithmetic mean of the squared deviation from their arithmetic mean of a set of values, (Ibid p-38).

The greater the amount of dispersion, the greater is the standard deviation. A small standard deviation means high degree of uniformity of the observation as well as homogeneity of a series and vice versa. It is calculated as:

$$S.D\ (\exists) \quad = \quad \sqrt{\frac{\phi x^2}{N} - (\ x)^2}$$

3.5.2.3 Coefficient of Variation (C.V)

Standard deviation is only an absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the coefficient of variation (C.V). It is suitable for comparing the variability, homogeneity or uniformity of two or more distributions.

A distribution having less C.V. is said to be less variability or more uniformity homogeneity, consistency etc. And a distribution having more C.V. is said to be more variability or more heterogeneous or less uniformity, consistency etc. Coefficient of variation (C.V.) is calculated by dividing standard deviation by the mean and multiplied by hundred, (Ibid. P-415).

$$C.V. \quad = \quad \frac{\text{Standard Deviations}}{\text{Mean}} \times 100$$

3.5.2.4 Coefficient of Correlation (r)

The correlation is a statistical tool, which studies the degree of relationship between two variables and correlation analysis involves various methods and techniques used for studying and measuring the extent of the relationship between two variables. Two variables are said to be correlated if the change in one variable results in a corresponding change in the other variable, (Ibid; pp.510-511). It measures the direction of relationships between two sets of figures. The correlation coefficient can be either in positive or negative and can have the value between –1 to + 1. If both the variables are changing in the same direction, then positive correlation exists, whereas if the variation in two variables takes place in opposite direction, the correlation is said to be negative. In this study the correlation is calculated to examine the positive or negative degree relationship between earning per share and dividend, net worth and dividend, total earning and dividend, market price of stock and dividend and earning per share and market price per share. It is calculated by following formula:

$$r = \frac{n\phi XY - \phi X \phi Y}{\sqrt{n\phi x^2 - (x)^2}\sqrt{n\phi Y^2 - (y)^2}}$$

3.5.2.5 Coefficient of Determination (R^2)

Coefficient of Determination is much useful and better measure for interpreting the value of r. It measures the percentage of total variation on dependent variable explained by independent variables. In other words, the coefficient of determination gives the ratio of the explained variance to the total variance. Its' value can range from 0 to 1. The coefficient of determination is given by the square of the correlation coefficient. Thus,

$$\text{Coefficient of determination } (r^2) = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

3.5.2.6 Regression Analysis

Literal meaning of regression is stepping or returning back to the original position. Sir F. Galton first developed the theory of regression analysis. Regression analysis is used as a tool of determining the strength of relationship between two variables. Thus, it is a statistical device, with the help of which we can estimate or predict the value of one variable when the value of other variable is known. The unknown variable whose value is known is to be

determined is known as dependent variable whereas the variable whose value is known is said to be independent variable. Here, unknown variable will be MPS and DPS and known Variables will be other financial indicators. The analysis used to describe the average relationship between two variables is known as simple linear regression analysis, (Bajrachary, 2056: pp 276-277). Simple regression analysis has been used in this study to determine the effects of aforementioned independent variable on dependent variable, i.e. dividend, market price of stock and net worth.

Regression lines expressed in terms of algebraic relations are known as regression equations. There are two lines of regression so there are two equations of regression.

- The regression equations of y on x which is used to describe the variation in the value of y for a given change in the value of x.

The regression equation of y on x be

$y = a + bx$

Where,

y = Dependent variable (DPS)

a = regression constant

x = independent variable (EPS)

b = slope of regression liner or regression coefficient of y on x

This model has been applied for analyzing the six years data form 1997/98 to 2002/03. Similarly the following regression model has been used to find out whether the variable of earning per share, market price per share and net worth of the insurance companies is related to dividend per share of the companies.

The regression equation of y on x be

$y = a + bx$

Where,

y = market price per share

a = regression constant

x = Regression coefficient

b = Dividend per share

The regression equation of y on x be

$y = a + bx$

Where,

y = Dependent variable (DPS)

a = regression constant

x = regression coefficient

b = Earning per share

The regression equation of y on x be

Where,

y = Net worth of Insurance companies

a = Regression constant

x = Regression coefficient

b = Dividend per share

- The regression equation of x on y, which is used to describe the variation in the value of x for a given change in the value of y. such line is drowning to find out the value of socks by using two normal equations which are as follows:

$\phi y = Na + b \phi x$ ... (i)

$\phi xy = a \phi x + b \phi x^2$ ... (ii)

Where,

a and b are unknown

N = Number of observation in the sample.

3.5.2.7 Probable Error

Probable error is correlation coefficient usually denoted by P.E(r) and is an old measure of test. The reliability of an observed value of correlation coefficient so far as depends upon the conditions of random sampling.

$$P.E.(r) = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

2.5.2.8 Test of Hypothesis

A hypothesis is a logically expressed in the forms of testable statements (Sekaran, 1997, Pg. 79). The test of hypothesis discloses the fact whether the difference between the computed statistics and hypothetical parameters is significant. Hypothesis is thus a statement about the relationship between two or more variables, which needs to be investigated for its truth.

2.5.2.8 (a) Analysis of Variance (ANOVA)

T = test is suitable, when we have to test the significance difference between two sample means. But F-distribution is suitable technique, called analysis of variance when we need to test the significance of the difference between more than two sample means. Thus F-test is used to examine the significance of differences between more than two sample means at once and simultaneously. From this technique, we will be able to make inferences about whether the samples drawn from populations have the same mean. Due to the more than two samples, f-test is done to find the uniformity of DPS, EPS and MPS. The F-test calculated form following way,

$$f = \frac{MSB}{MSW}$$

Where,

f = F ratio

MSB = Variance between samples

MSW = Variance within samples

CHAPTER-IV

PRESENTATIONS AND ANALYSIS OF DATA

This section analyzes the relevant data and information, regarding dividend policy of the selected insurance companies. This analysis includes financial and statistical indicators, in order to achieve the objectives, which are set in introduction chapter. The descriptive analysis of Earning per share, dividend per share, Market price per share, Dividend payout ratio, dividend yield ratio and Market price per share to Book value per share of the respectively sample insurance companies is done the first part, analysis of dividend payment practices of insurance companies along with the financial variables are presented company wise in the second part and the explanatory and hypothetical analysis with comparison of financial indicators of the concerned companies is done with the help of statistical tools mentioned in chapter III in the third part. This analysis of data consists of organizing, tabulating and performing the dividend practices of sample insurance companies, which are listed in NEPSE.

4.1 Analysis of Financial Indicators

4.1.1 Earning Per Share (EPS)

The performance of the business organizations depends upon their earning capacity. Higher EPS of the company shows higher strength and better position in the stock market. EPS is the ratio of net profit after taxes to number of common stock outstanding. It reveals the earning power of each share over the period by the insurance companies.

Table No 4.1

Earning Per Share of Respective Insurance Companies

Years / Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V
PICL	20.00	25.12	46.70	43.54	18.43	16.61	28.40	12.14	0.43
HGICL	59.00	45.13	36.70	39.90	25.10	22.28	38.02	12.32	0.32
SICL	20.40	28.15	30.21	30.13	14.72	15.09	23.12	6.67	0.29
AICL	16.17	4.00	6.64	13.15	22.25	6.27	11.41	6.42	0.56
UICL	31.28	23.91	16.86	14.46	8.00	22.31	19.47	7.42	0.38
EICL	61.75	57.22	33.74	41.81	24.54	(18.44)	33.44	26.48	0.79
NECOICL	12.11	8.87	3.00	0.54	(10.03)	0.52	2.50	7.05	2.82
Yearly average	31.53	27.49	24.84	26.22	14,72	9.23	22.34	11.21	0.80

Source: - Annual Reports

The above table represents the earning per share of concerned insurance companies for six consecutive years (2002/03 to 2007/08).

The table shows that the average earning per share of PICL is Rs.28.40, which is the third highest EPS among the companies. Under consideration the EPS ranges between Rs.16.61 to Rs.46.70. The company has not maintained average EPS. The company's EPS of 2004/05 and 2005/06 are above the yearly average. The standard deviation of the EPS under the period of study is 12.14 and its C.V is 43%. It indicates that there is a moderate fluctuation of 43% in the EPS of PICL during the period of study.

During the study period, the average EPS of HGICL is Rs.38.02, which is the highest EPS among the selected companies. The EPS of the company ranges between Rs. 22.28 to Rs.59.00. The company has not maintained its average EPS except in the year 2004/05 and 2005/06. The EPS of 2004/05, 2006/07 and 2007/08 are below from the yearly average. Its EPS has been decreased except for the year 2005/06 during the whole period of study. The standard deviation is 12.32 and C.V is 32.00%. It means that there is a fluctuation of

32.00% in EPS of HGICL.

Sagarmatha Insurance Company Ltd. has the EPS ranging from Rs.14.72 to Rs.30.21 and an average EPS is Rs.23.12 with a standard deviation of 6.67. The co-efficient of variation is 29%, which indicates that there is a fluctuation of 29% in EPS of SICL during the study period. The company has not maintained the average EPS. Its EPS is below the yearly average except for the year 2002/03, 2006/07 and 2007/08 but its EPS has been increasing.

The average EPS of AICL during this period of study is Rs.11.41. The company has not maintained its average EPS except in the year 2005/06. The EPS of the company is below the average for three i.e. 2003/04, 2004/05 and 2007/08. It is above the yearly average for 2002/03, 2005/06 and 2006/07. EPS of the AICL has been fluctuating during the last six years. The standard deviation is 6.42 and fluctuation is 56% in EPS during this period.

The average EPS of the UICL is Rs.19.47. It has maintained average EPS in the year 2003/04, 2004/05 and 2007/08. During the study period, the average EPS was in decreasing order but it was increased above the yearly average in last year. The standard deviation of EPS is 7.42 whereas the coefficient of variation is 38%. It indicates that there is a fluctuation of 38% in the EPS of UICL during the period of study.

EICL has the second highest average EPS among the selected Insurance Companies. The highest EPS of the company is Rs.61.75 and average EPs is Rs.33.44 with the standard deviation of 26.48. But company has maintained its average EPS only in the year 2004/05. During the study period, the EPS is in decreasing order except in the year 2005/06. The company EPS in the year 2007/08 was negative by Rs.18.44. The C.V. indicates that there is a fluctuation of 79% in EPS of EICL during the study period.

EPS of the NECOICL has been fluctuating during the study period. The average EPS of the company is Rs.2.50, which is the least of the EPS among the concerned companies and it has not maintained the average EPS. The EPS is continuously decreasing from the very beginning and it even shows the negative earning in the year 2006/07 which is (10.03) which is not good signal for the company. However, in the year 2007/08 it has managed to show its earning positive which is Rs.0.52. The standard deviation of EPS is 7.05. The C.V.

of 282% shows that there is a most fluctuation under the period of study.

From the above analysis it can be concluded that the average EPS of HGICL is the highest and that of NECOICL is the lowest. During the study period, the EPS of the companies found ranging form Rs.(10.03) to Rs.61.75. Comparing the performance of selected on the basis of EPS, insurance companies have been found to maintain the average EPS. Similarly, the standard deviation of EICL is the highest and that of AICL is the lowest.

Besides considering the average EPS and standard deviation, the rate of fluctuation is measured with the help of C.V. The C.V of EPS of SICL is the lowest of all and NECOICL has the highest CV i.e. 282%. It means that the SICL has less variation or more consistency during the six years study period whereas NECOICL has shows more fluctuation or less consistency.

4.1.2 Dividend Per Share (DPS)

DPS is defined as the ratio of net profit after interest and preference dividend paid to ordinary shareholder to number of common stock outstanding. In other words, it is the part of earning distributed to shareholder on per share basis. In this part, cash and stock dividends of the selected insurance companies between the years 2002/03 to 2007/08 has been analyzed.

Table No 4.2

Dividend Per Share of Respective Insurance Companies

Years / Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V
PICL	10.00	0.00	0.00	0.00	115.80	0.00	22.97	42.57	2.03
HGICL	105.00	0.00	0.00	0.00	110.00	11.00	37.75	49.49	1.31
SICL	10.00	0.00	0.00	40.00	0.00	0.00	8.33	14.62	1.75
AICL	0.00	0.00	0.00	10.00	20.00	0.00	5.00	7.64	1.53
UICL	55.00	0.00	3.00	1.00	17.50	0.00	12.75	19.86	1.56
EICL	10.00	21.65	10.00	43.00	12.5	0.00	16.19	13.55	0.84
NECOICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yearly average	27.14	3.09	1.86	13.50	39.40	1.57	14.43	21.10	1.29

Source: - Annual Report

The above table shows that the average dividend per share paid by PICL is Rs.22.97 and it is ranges between Rs.0.00 to Rs.115.80 during the period of study. The company has not paid cash and stock dividend in the year 2003/04, 2004/05, 2005/06 and 2007/08 although it has made profit. The DPS is always below the yearly average except in the year 2006/07.

During the study period, HGICL has paid dividend only in the year 2002/03, 2006/07 and 2007/08. It has average DPS of Rs.22.97. It shows that the DPS of the HGICL is always below the yearly average except in the years 2002/03 and 2006/07.

Sagarmatha Insurance Company limited has average DPS of Rs.8.33 and it ranges between Rs.0 to 40. The company had paid dividend only in the year 2002/03 and 2005/06.

Alliance Insurance Company has average DPS of Rs.5.00, which is the second lowest average figure. The company has not paid any dividend except in the year 2005/06 and 2006/07. It has not maintained average DPS in the study period.

United insurance company has paid dividend every year except in the year 2003/04 and 2007/08. Its average DPS is also Rs.12.75. The DPS is higher than the average in the year 2002/03 and 2006/07 whereas the DPS is very low in the year 2004/05 and 2005/06.

During the study period, the average DPS of the Everest Insurance Company Limited is Rs. 16.19. The company has paid the dividend in all the year except last year 2007/08. It has paid dividend fixed DPS of Rs.10.00 in the year 2002/03, 2004/05.

NECOICL insurance company has not paid any dividend during the study period. So that the average DPS of the NECOICL insurance company limited is Rs.0.00, which is the lowest figure among all. It shows that the company earnings has more fluctuated more and not ready to pay the any dividend i.e. cash and stock dividend.

Besides, fluctuation in the dividend payment has been reflected with the help of coefficient of variation (CV). The greater the C.V; the greater will be the variation. Since the C.V of DPS for NECOICL is zero. It means, there is no any variation or fluctuation in its dividend payment system. In the other hand, the C.V of the DPS of PICL is highest of all companies, which is 203%. It shows that Premier Insurance Company has more fluctuation in its dividend payment system.

Over the six-year study period, EICL has distributed regular dividend and others have paid fluctuating dividend. In the year 2006/07 Premier Insurance Company pays highest dividend including cash and stock dividend.

From the above analysis, it is seen that the average dividend per share of HGICL is highest of all sampled insurance companies. PICL stands in the second position and EICL stand in the third position. UICL, SICL, AICL and NECL stand fourth, fifth, sixth and seventh position respectively.

4.1.3 Dividend Payout Ratio (DPR)

The ratio of dividend per share and earning per share is known as dividend payout ratio. It reveals the percentage of profit distributed as dividend and percentage of retained as reserve for the expansion of the company. The following table 4.3 shows the dividend payout ratio of seven insurance companies of Nepal.

Table No 4.3

Dividend Payout Ratio of Respective Insurance Companies

Years Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V
PICL	50.00	0.00	0.00	0.00	628.00	0.00	113.00	231.04	2.04
HGICL	180.00	0.00	0.00	0.00	438.00	49.37	111.23	159.40	1.43
SICL	49.02	0.00	0.00	132.75	0.00	0.00	30.30	49.19	1.62
AICL	0.00	0.00	0.00	76.00	90.00	0.00	27.67	39.33	1.42
UICL	175.83	0.00	17.80	7.00	218.75	0.00	69.90	91.12	1.30
EICL	16.20	37.84	29.64	102.85	50.94	0.00	39.58	32.52	0.82
NECOICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yearly average	67.29	5.41	6.78	45.51	203.67	7.05	55.95	86.09	1.24

Sources: Annual Report

PICL has average payout ratio 113.00%. The company has not paid any dividend in the years 2003/04, 2004/05, 2005/06 and 2007/08; therefore the payout ratio in those years is zero. It means that the company has retained the profit for the future proposes. During the study period, the company has not maintained the average payout ratio in the study period. The yearly average analysis shows that DPR of the company is always below the average except in the year 2006/07.

Dividend payout ratio of HGICL ranges between 0 to 438% and average DPR is 111.23%. In the year 2003/04, 2004/05 and 2005/06, the company has not paid any dividend so, its DPR in these years are zero. Beside these years, the company has maintained the average payout ratio over the study period. This reflects that the company has paid more consideration to the payment of divided.

SICL has paid the dividend only in the year 2002/03 and 2005/06. In other years the company has retained all of its profit. The maximum payout ratio of the company is 132.75% in the year 2005/06. The company has maintained an average payout ratio of 30.30%.

During the study period, Alliance Insurance Company has paid the dividend only in the year

2005/06 and 2006/07. The average DPR is 27.67%. Therefore, the company DPR is zero in rest of the years. The range of DPR has been 0.00 to 90%.

United Insurance Company has paid dividend regularly except in the year 2003/04 and 2007/08. The maximum payout ratio for the company is 218.75% in the year 2006/07. The average payout ratio maintained by the company is 39.58%.

The average dividend payout ratio of Everest Insurance Company Limited is 39.58%. The company has paid the dividend in all years except last fiscal year 2007/08.The company payout ratio is always below the yearly average all the years except in the year 2005/06.

NECO Insurance Company Limited (NECOICL) has not paid dividend to its shareholders during the study period. Therefore, the average payout ratio and DPR of the company is zero. All the profits are retained by the company.

Considering the fluctuation in DPR with the help of coefficient of variation (CV), PICL has highest CV i.e. 203%, which is the largest fluctuation in DPR of all the sample insurance companies. SICL has the second highest CV, NECL has the lowest CV i.e. zero which indicates that there is no any such variation in dividend payment, and it means that the DPR of this company has less fluctuation with the comparison of DPR of other sampled insurance companies.

4.1.4 Dividend Yield Ratio (DYR)

Dividend yield ratio relates annual dividend to market price per share. Therefore, it highly influences of the market value per share. Company should always consider the impact of market scenario before allocation of dividend to shareholders. The following table 4.4 shows the percentage of dividend yield of seven insurance companies on the study period of 2002/03 to 2007/08.

Table No 4.4

Dividend Yield Ratio of Respective Insurance Companies

Years / Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V
PICL	5.21	0.00	0.00	0.00	44.54	0.00	8.29	16.32	1.97
HGICL	55.26	0.00	0.00	0.00	36.67	3.20	15.86	21.99	1.39
SICL	6.67	0.00	0.00	19.05	0.00	0.00	4.29	7.04	1.64
AICL	0.00	0.00	0.00	9.80	18.02	0.00	4.64	6.97	1.50
UICL	39.85	0.00	2.34	0.00	8.00	0.00	8.37	14.36	1.72
EICL	2.00	6.20	3.08	14.58	5.71	0.00	5.26	4.67	0.89
NECOICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yearly average	15.57	0.89	0.77	6.20	16.13	0.46	6.67	10.19	1.52

Source: Annual Report

Above table shows the average DYR of PICL is 8.29%. Dividend yield in the year 2003/04, 2004/05, 2005/06 and 2007/08 is zero because the company has not paid any dividend in these years. During the study period, maximum dividend yield is 44.54%. The company has not maintained average DYR except in the year 2006/07.

The average dividend yield ratio of HGICL is 15.86%. The dividend yield ratio ranges between o to 55.26. In the year 2002/03 and 2006/07, its DYR is more than its own average DYR. And, in the year 2003/04, 2004/05 and 2005/06, the company has not paid any cash or stock dividend. Thus, DYR is remained zero in these years. During the study period, the company has highest DYR in the year 2002/03 which is 55.26%.

The dividend yield for SICL ranges between 0.00 to 19.05%. In the year 2003/04, 2004/05, 2006/07 and 2007/08 the dividend yield ratio is zero because the company has not paid any dividend in these years. The average ratio is 4.29%, which is maintained by the company for only two years during the study period.

During the study period, the average DYR of AICL is 4.64%. The company has distributed dividend only in the year 2005/06 to 2006/07 and became able to maintain average DYR in these years. It has zero DYR in the year 2002/03, 2003/04, 2004/05 and 2007/08 because the company was unable to pay any cash or stock dividend.

The average DYR for UICL is 8.37%, DYR ranges from 0.00 to 39.85. The company has not maintained its average DYR in the four years i.e. 2003/04, 2004/05, 2005/06 and 2007/08. In the year 2002/03, it has the highest DYR of 39.85%.

EICL has average DYR of 5.26% over the study period, which is maintained by the company for three years only i.e. for the year 2003/04, 2005/06 and 2006/07. The company has paid dividend all the years, except last year 2007/08, though it is fluctuating. The highest DYR for the company is 14.58% in the year 2005/06. In the year 2007/08, the company has the lowest DYR which is 0.00%, because the company did not pay any dividend.

Likewise, the dividend yield of NECOICL is zero in all the year because the company has not paid any dividend in all those years. The average DYR of the company is 0.00%, which is not a good symptom for the company and it is only one company which is not paying any such cash or stock dividend over the study period.

The above analysis shows that the DYR of HGICL is the highest. UICL, PICL, EICL, AICL, SICL and NECL stand in second, third, fourth, fifth, sixth and seventh position respectively.

The fluctuation in DYR, has been analyzed with the help of CV. PICL has the highest fluctuation in DYR due to the highest CV among the sample insurance companies and CV of NECL is zero which signifies there is no any fluctuation in dividend payment.

Finally, dividend yield of above insurance companies do not show any encouraging figure. The highest DYR is that of HGICL which 15.86% is. The data shows that investors have not received reasonable return on their market value per share.

4.1.5 Price Earning Ratio (P/E Ratio)

Price earning ratio indicates the price currently paid by the market for one rupee of currently reported earning per share. It shows the market appraisal of the companies. Sound price earning ratio protects the interest of shareholders. It is calculated, dividing the market price per share by earning per share.

Table- 4.5

Price Earning Ratio of Respective Insurance Companies

Years Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V
PICL	9.60	8.36	5.00	4.60	14.11	18.06	9.96	4.81	0.48
HGICL	3.22	3.88	5.60	4.74	11.95	15.48	7.48	4.58	0.61
SICL	7.35	4.65	5.23	7.00	15.42	20.28	9.99	5.81	0.58
AICL	6.80	25.75	16.57	7.76	5.00	24.56	14.41	8.44	0.59
UICL	4.41	4.39	7.60	8.64	27.38	14.12	11.09	7.98	0.72
EICL	9.88	6.12	9.63	7.06	8.92	(17.08)	4.09	9.56	2.34
NECOICL	10.73	12.63	36.67	166.67	(12.06)	248.08	77.12	96.09	1.25
Yearly average	7.43	9.40	12.33	29.50	10.10	46.21	19.16	19.61	0.94

Source: Annual Report

The above table shows that the P/E ratio of seven sampled insurance companies under the study period. All companies are found with fluctuating trend of price earning ratio.

During the study period, PICL has average P/E ratio of 9.96, which is maintained by the company in the year 2002/03, 2003/04, 2006/07 and 2007/08. P/E ratio in the year 2002/03 is very close to the average P/E ratio. In the year 2004/05 and 2005/06, the P/E ratio is 5.00 and 4.60 respectively which are below the average P/E ratio.

The average P/E ratio of HGICL is 7.48, which is maintained only in the years 2006/07 and 2007/08. P/E ratio in the remaining years is below the average P/E ratio. HGICL has highest P/E ratio in the year 2007/08 which is 15.48 during the study period.

SICL's P/E ratio ranges from 4.65 to 20.28. The average P/E ratio is 9.99, which is not maintained by the company in the year 2002/03, 2003/04, 2004/05 and 2005/06. In the year 2006/07 and 2007/08, P/E ratios are 15.42 and 20.28 respectively which are above the average P/E ratio.

AICL's P/E ratio is in the range of 5.00 to 25.75. The average P/E ratio is 14.41. It is the second highest average ratio of all. The company has maintained average ratio in the year 2003/04, 2004/05 and 2007/08. In the years 2002/03, 2005/06 and 2006/07 the P/E ratios are 6.80, 7.76 and 5.00 respectively which are below the average ratio.

Average P/E ratio of UICL is 11.09. The company has maintained average ratio only in the years 2006/07 and 2007/08. In the year 2002/03, 2003/04, 2004/05 and 2005/06 the P/E ratios are 4.41, 4.39, 7.60 and 8.64, which are below the average P/E ratio. The highest P/E ratio for UICL itself is in the year 2005/06 which is 27.38.

The average P/E ratio of EICL is 4.09, which is maintained by the company in all the years except in 2007/08. It has the lowest value of P/E ratio of all. The range of P/E ratio is (17.08) to 9.88.

Likewise, the average P/E ratio of NECOICL is 77.12, which is the largest P/E ratio during the study period. The highest P/E ratio is 248.08 of all. The company maintains the P/E ratio only in the year 2005/06 and 2007/08 are 166.67 and 248.08 respectively. The company P/E ratio in 2006/07 is negative which is (12.06).

From the above analysis, it is seen that NECOICL has the highest average P/E ratio of all the sample insurance companies, which is also higher than the yearly average P/E ratio. EICL has the lowest average P/E ratio of all. Average P/E ratios for PICL, HGICL, SICL, AICL and UICL are 9.96, 7.48, 9.99, 14.41 and 11.09 times respectively. Thus the performances of these companies seem below the standard.

The fluctuation of P/E ratio has been analyzed with the help of C.V. EICL has highest

fluctuation due to its higher C.V which is 234%. PICL has more consistency or less fluctuation in P/E ratio than other sample insurance companies because of its lower C.V which is 48%.

4.1.6 Market Priced Per Share to Book Value Per Share Ratio (MPS /BVPS)

MPS to BVPS ratio is one of the major financial tools to evaluate the worth of share in the market. The following table- 4.6 shows the MPS to BVPS ratio of selected sampled insurance companies.

Table –4.6

MPS to BVPS ratio of Respective Insurance Companies

Years Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V
PICL	0.83	0.78	0.65	0.53	1.48	1.79	1.01	0.46	0.46
HGICL	0.75	0.60	0.59	0.47	0.67	1.05	0.69	0.18	0.27
SICL	0.86	0.61	0.66	0.69	0.93	1.95	0.95	0.46	0.49
AICL	0.65	0.59	0.46	0.31	0.30	0.43	0.46	0.13	0.29
UICL	0.74	0.52	0.59	0.52	1.03	1.64	0.84	0.40	0.47
EICL	2.55	1.28	1.59	1.22	1.38	2.08	1.68	0.48	0.29
NECL	0.84	0.68	0.74	0.60	0.75	0.90	0.75	0.10	0.13
Yearly average	1.03	0.72	0.75	0.62	0.94	1.40	0.91	0.32	0.34

Source: Annual Report

The above table shows that the MPS to BVPS ratio for EICL is the highest and is 2.55, which indicates that one rupee book value of this insurance company is equal to Rs.2.55 of MPS. The ratio of EICL is the highest in the year 2002/03, but it shows fluctuating ratio other times during the period of study.

The average MPS/ BVPS ratio for EICL is 1.68, which makes it stand in the first position of all the sample insurance companies.

The average MPS/ BVPS ratio for AICL is 0.46 and it is last position. The company seems unable to maintain its average ratio.

Above analysis shows, that the ratios of all the insurance companies are similar. The EICL stands in the first position and PICL, SICL, UICL, NECL, HGICL, and AICL stand in second, third, fourth, fifth, sixth and last position respectively.

The fluctuation in MPS/BVPS ratio has been the analyzed with the help of CV. SICL has highest fluctuation in ratio due to the highest CV of all the sample insurance companies. NECOICL has more consistent ratio of all. Rests of the insurance companies have nearly similar fluctuation as indicated by their respective CV.

4.2 ANALYSIS OF COMPANY WISE FINANCIAL VARIABLES

In this section, company wise financial analysis has been presented.

4.2.1 Financial variable of Premier Insurance Company (Nepal) Limited

Table-4.7

Financial Variable of PICL

Variables	No. of Cases	Min	Max	Mean	S.D	C.V
EPS	6	16.61	46.70	28.40	12.14	43.00
DPS	6	0.00	115.80	22.97	42.57	203.00
DPR	6	0.00	628.00	113.00	231.04	204.00
DYR	6	0.00	44.54	8.29	16.32	197.00
P/E Ratio	6	4.60	18.06	9.96	4.81	48.00
MPS/BVPS	6	0.53	1.79	1.01	0.46	46.00

The EPS of PICL has ranged form Rs.16.61 to Rs.46.70 and its mean EPS is Rs.28.40. Its standard deviation is Rs.12.14 and coefficient of variation is 43 percent, which indicates a moderate fluctuation in the EPS of the company. The company's average DPS is Rs.22.97, its standard deviation is Rs.42.57 and C.V is 203 percent. It means that there is more fluctuation in DPS. Its average DPR is 113 percent. It shows that the company has distributed average 113 percent of its profit as dividend and remaining portion of profit has been retained in the company. The standard deviation and C.V is Rs.231.04 and 204 percent respectively. Average dividend yield of the company is 16.32 percent, which can be considered low and has the greater fluctuation of 197 percent. S.D of P/E ratio and MPS/ BVPS are 4.81 times and 0.46 times respectively and their C.V are 48 percent and 46

percent respectively.

4.2.2 Financial Variable of Himalayan General Insurance Company Limited

Table-4.8

Financial Variable of HGICL

Variables	No. of Cases	Min	Max	Mean	S.D	C.V
EPS	6	22.28	59.00	38.02	12.32	32.00
DPS	6	0.00	110.00	37.75	49.49	131.00
DPR	6	0.00	438.00	111.23	159.40	143.00
DYR	6	0.00	55.26	15.86	21.99	139.00
P/E Ratio	6	3.22	15.48	7.48	4.58	61.00
MPS/BVPS	6	46.55	105.00	68.95	18.39	27.00

The above table shows that the average EPS and DPS of HGICL are Rs.38.02 and Rs.37.75 respectively. EPS and DPS have ranged from Rs.22.28 to Rs.59.00 and Rs.0.00 to Rs.110.00 respectively. The company has not been able to maintain regular and constant dividend. Therefore, there are relatively high variations, as its C.V is 131 percent. The average DPR is 111.23 percent and its' S.D and C.V are 159.40 and 143 percent respectively. The coefficient of variation is higher because the DPR ranges from 0.00 percent to 438.00 percent. The average DYR for the company is 15.86 percent, which can be considered low and it has greater fluctuation of 139 percent. The average of P/E ratio and MPS to BVPS ratio is 7.48 times and 68.95 times respectively and their S.D are 4.58 and 18.39 and C.V are 61.00 and 27 percent respectively.

4.2.3 Financial Variable of Sagarmatha Insurance Company Limited

Table –4.9

Financial Variable of SICL

Variables	No. of Cases	Min	Max	Mean	S.D	C.V
EPS	6	14.72	30.21	23.12	6.67	29.00
DPS	6	0.00	40.00	8.33	14.62	175.00
DPR	6	0.00	132.75	30.30	49.19	162.00
DYR	6	0.00	19.05	4.29	7.04	164.00
P/E Ratio	6	4.65	20.28	9.99	5.81	58.00
MPS/BVPS	6	61.06	195.74	95.32	46.32	49.00

EPS and DPS for SICL have ranged form Rs.14.72 to Rs.30.21 and Rs.0.00 to Rs.40.00 respectively. The mean of EPS and DPS are Rs.23.12 and Rs.8.33, S.D is 6.67 and 14.62 and C.V is 29.00 percent and 175 percent respectively. The average DPR of this company is 30.30 percent of its profits is distributed among the shareholders on average over the study period and the rest of the profit is retained in the company to meet its capital requirements. It's S.D and C.V are 49.19 and 162.00 percent respectively. The average DYR is 4.29, its S.D is 7.04 and C.V is 164 percent. The DYR of this company indicates that the dividend yield for the insurance company is low i.e. 7.04 on an average. The average P/E ratio and MPS to BVPS are 9.99 and 95.32 respectively and their S.D is 5.81 and 46.32 and C.V is 58.00 percent and 49.00 percent respectively.

4.2.4 Financial Variable of Alliance Insurance Company Limited.

Table-4.10

Financial Variable of AICL

Variables	No. of Cases	Min	Max	Mean	S.D	C.V
EPS	6	4.00	22.25	11.41	6.42	56.00
DPS	6	0.00	20.00	5.00	7.64	153.00
DPR	6	0.00	90.00	27.67	39.33	142.00
DYR	6	0.00	18.02	4.64	6.97	150.00
P/E Ratio	6	5.00	25.75	14.41	8.44	59.00
MPS/BVPS	6	29.55	65.03	45.56	13.16	29.00

The EPS of AICL ranges from Rs.4.00 to Rs.22.25 and the mean EPS is Rs.11.41. S.D of EPS is 6.42 and C.V is 56.00 percent, which indicates more fluctuation in EPS. The mean, S.D and C.V of DPS is Rs.5.00, 7.64 and 153.00 percent respectively. The company has paid neither regular nor constant dividend. Therefore, there is high variation or no consistency in the DPR. Its C.V is 142.00 percent, which indicates greater fluctuation. The average DYR, P/E ratio and MPS/BVPS are 4.64, 14.41 times and 45.56 times and their S.D are 6.97, 8.44 and 13.16 times respectively. The C.V. of these variables are 150.00 percent, 59.00 and 29.00 percent respectively. DYR of this company can be considered very low and it has greater fluctuation that is 150.00 percent.

4.2.5 Financial Variable of United Insurance Company Limited.

Table-4.11

Financial Variable of UICL

Variables	No. of Cases	Min	Max	Mean	S.D	C.V
EPS	6	8.00	31.28	19.47	7.42	38.00
DPS	6	0.00	55.00	12.75	19.86	156.00
DPR	6	0.00	218.75	69.90	91.12	130.00
DYR	6	0.00	39.85	8.37	14.36	172.00
P/E Ratio	6	4.39	27.38	11.09	7.98	72.00
MPS/BVPS	6	51.61	163.70	83.86	39.74	47.00

EPS of UICL has ranged between Rs.8.00 to Rs.31.28, and the mean is Rs.19.47; its standard deviation is Rs.7.42. It has 38.00 percent of C.V, which shows that there is 38.00 percent fluctuation in EPS. The average DPS of the company is Rs.12.75 and its S.D and C.V is 19.86 and 156.00 percent respectively. The C.V of 156.00 percent indicates that there is more fluctuation in DPS. Average DPR, DYR, P/E ratio and MPS/BVPS are 69.90, 8.37, 11.09 and 83.86 times respectively. Its DPR shows that the company has distributed 69.90 percent of its profit to the shareholders on average over the period of study and remaining portion of profit has been retained. S.D of DPR, DYR, P/E ratio and MPS/ BVPS are 91.12, 14.36, 7.98 and 39.74 respectively and their C.V are 130.00, 172.00, 72.00 and 47.00 percent respectively.

4.2.6 Financial Variable of Everest Insurance Company Limited

Table-4.12

Financial Variables of EICL

Variables	No. of Cases	Min	Max	Mean	S.D	C.V
EPS	6	(18.44)	61.75	33.44	26.48	79.00
DPS	6	0.00	43.00	16.19	13.55	84.00
DPR	6	0.00	102.85	39.58	32.52	82.00
DYR	6	0.00	14.58	5.26	4.67	89.00
P/E Ratio	6	(17.08)	9.88	4.09	9.56	234.00

MPS/BVPS	6	122.18	255.64	168.33	48.22	29.00

The financial indicators, EPS and DPS for EICL has ranged from Rs. (18.44) to Rs.61.75 and Rs.0.00 to Rs.43.00 respectively. The mean of EPS and DPS are Rs.33.44 and Rs.16.19, S.D are 26.48 and 13.55 and C.V are 79.00 and 84.00 percent respectively. The average DPR of the company is 32.52 percent which shows that the company has distributed 32.52 percent of its profit to the shareholders. Likewise, the average dividend yield of the company is 4.67 percent which does not seem an encouraging figure. The C.V indicates that there is 89.00 percent fluctuation on dividend yield. The average P/E ratio and MPPS/BVPS are 4.09 and 168.33 respectively and their S.D is 9.56 and 48.22 and C.V is 234.00 percent and 29.00 percent respectively.

4.2.7 Financial Variable of NECO Insurance Company Limited

Table-4.13

Financial Variable of NECOICL

Variables	No. of Cases	Min	Max	Mean	S.D	C.V
EPS	6	(10.03)	12.11	2.50	7.05	282.00
DPS	6	0.00	0.00	0.00	0.00	0.00
DPR	6	0.00	0.00	0.00	0.00	0.00
DYR	6	0.00	0.00	0.00	0.00	0.00
P/E Ratio	6	(12.06)	248.08	77.12	96.09	125.00
MPS/BVPS	6	60.00	90.45	75.36	9.90	13.00

NECOICL has mean EPS of Rs.2.50 that ranges from Rs. (10.03) to Rs.12.11, its standard deviation is Rs.7.05 and coefficient of variation is 282.00 percent. The C.V shows that there is fluctuation of 282.00 percent in EPS. The DPS, DPR and DYR for the company are Rs.0.00 because the company has not paid any cash or stock dividend during the study period. Hence, its mean, standard deviation and C.V. is also zero. It means that there is no variation and 100 percent consistency in DPS, DPR and DYR. Average P/R ratio and MPS to BVPS are 77.12 and 75.36 respectively. S.D of P/R ratio and MPS to BVPS are 96.09 and 9.90 respectively. Their C.V is 125.00 and 13.00 percent respectively.

4.3 Correlation Analysis

Correlation analysis is defined as the statistical technique which measures the degree and direction of relationship between two or more variables. However it does not tell any thing about the cause and effect relationship of variables. But it helps to determine whether a high, moderate and low degree of positive or negative relation exists between the variables. Here, correlation analysis is used to determine the relationship between two factors i.e. dividend and other variables.

4.3.1 Relationship between Dividend Per Share and Earning per Share

Table-4.14

Correlation Analysis of DPS and EPS

Companies	CORR ®	Relationship	r2	PE	6PE	Significant test
PICL	(0.399)	Negative	0.159	0.232	1.392	Not Significant
HGICL	0.1667	Low relationship	0.028	0.268	1.608	Not Significant
SICL	0.4327	Positive	0.187	0.224	1.344	Not Significant
AICL	0.7958	Positive	0.633	0.10	0.60	Significant
UICL	0.4929	Positive	0.243	0.208	1.248	Not Significant
EICL	0.4878	Positive	0.238	0.210	1.26	Not Significant
NECOICL	0.00	No relationship	0.00	0.275	1.65	Not Significant

The above table shows that the relationship between EPS and DPS for the seven sample insurance companies. It is observed that the coefficient of correlation ® of AICL is the highest and positive which indicates the high degree of positive correlation. Correlation coefficient between EPS and DPS of SICL, UICL and EICL has moderate degree of positive correlation and HGICL has low degree of positive correlation. But in case of PICL, there exists moderate negative correlation between DPS and EPS. NECOICL has zero coefficient of correlation which indicates that there is no relationship between EPS and DPS.

Besides correlation, the significant test of the relationship between EPS and DPS is measured by calculating the probable error of correlation coefficient. The coefficient of correlation (r) appears to be greater than 6 P.E in case of AICL. Hence, the relation between EPS and DPS is significant. But the relationship between EPS and DPS is not significant in case of PICL, HGICL, SICL, UICL, EICL and NECOICL because the correlations are less

than 6 P.E.

Thus, we can conclude that DPS for PICL, HGICL, SICL, UICL, EICL and NECOICL do not seem to be dependent on EPS only but the DPS for AICL is much more dependent on its EPS. It means that if EPS increases, the dividend also increases and vice versa.

4.3.2 Relationship between Dividend Per Share and Market Price Per Share

Table-4.15

Correlation Analysis of DPS and MPS

Companies	CORR ®	Relationship	r2	PE	6PE	Significant test
PICL	0.331	Positive	0.110	0.245	1.470	Not Significant
HGICL	0.200	Positive	0.040	0.264	1.584	Not Significant
SICL	0.010	Low relationship	0.000	0.275	1.650	Not Significant
AICL	(0.258)	Negative	0.066	0.257	1.542	Not Significant
UICL	(0.137)	Negative	0.019	0.270	1.620	Not Significant
EICL	(0.189)	Negative	0.036	0.265	1.590	Not Significant
NECOICL	0.00	No relationship	0.000	0.275	1.650	Not Significant

The above table presents the relationship between DPS and MPS of sample insurance companies. From the above table, it is revealed that PICL, HGICL and SICL have low degree of positive correlation between DPS and MPS whereas AICL, UICL and EICL have low degree of negative correlation between DPS and MPS. NECOICL has zero correlation between DPS and MPS indicating that there is no any relationship between DPS and MPS. It implies that the market price per share affects the dividend per share.

The coefficient of correlation ® emerges to be greater than P.E. and less than 6 P.E. so it is difficult to conclude that whether the relationship between DPS and MPS is significant. Correlation coefficient ® is lesser than 6P.E in case of all the insurance companies; hence, the relationship between DPS and MPS is not significant. This means that the increase or decrease in price of stock does not depend upon the amount of dividend paid.

4.3.3 Relationship between Earning Per Share and Market Price per Share.

Table-4.16

Correlation Analysis of EPS and MPS

Companies	CORR ®	Relationship	R2	PE	6PE	Significant test
PICL	(0.555)	Negative	0.308	0.191	1.146	Not Significant
HGICL	(0.837)	Negative	0.700	0.0826	0.495	Not Significant
SICL	(0.640)	Negative	0.409	0.163	0.978	Not Significant
AICL	(0.259)	Negative	0.067	0.257	1.542	Not Significant
UICL	(0.147)	Negative	0.022	0.269	1.614	Not Significant
EICL	0.509	Positive	0.259	0.204	1.224	Not Significant
NECOICL	0.119	Positive	0.014	0.272	1.632	Not Significant

From the above analysis of correlation coefficient, it is noticed that the relationship between earning per share and market price per share is negative for all companies except EICL and NECOICL. The correlation coefficient of PICL has the moderate degree of negative relation between EPS and MPS, HGICL and SICL has high degree of negative relation, AICL and UICL has the low degree of negative correlation, EICL has moderate positive correlation and NECOICL has low degree of positive correlation between EPS and MPS.

The coefficient of correlation (r) is found to be less than 6 PE in all cases. Thus the relationship between EPS and MPS is not significant. It indicates that the increase or decrease in the price of stock largely depends upon the EPS.

4.3.4 Relationship between Dividend Per Share and Net Worth

Table-4.17

Correlation Analysis of DPS and NW

Companies	CORR ®	Relationship	R2	PE	6PE	Significant test
PICL	0.348	Positive	0.121	0.242	1.452	Not Significant
HGICL	0.041	Low relationship	0.002	0.275	1.650	Not Significant
SICL	0.165	Low relationship	0.027	0.268	1.608	Not Significant
AICL	0.428	Positive	0.183	0.225	1.350	Not Significant
UICL	(0.458)	Negative	0.209	0.218	1.308	Not Significant
EICL	(0.487)	Negative	0.237	0.210	1.260	Not Significant
NECOICL	0.000	Zero relationship	0.000	0.275	1.650	Not Significant

The above table shows the relationship between DPS and NW of concerned seven insurance

companies. It can be observed from the above table that PICL, HGICL, SICL and AICL have low degree of positive relationship between DPS and NW whereas UICL and EICL have negative relationship between DPS and NW. But, there is no relationship between DPS and NW in case of NECOICL. Positive correlation means that the increase in NW leads to increase in DPS and vice-versa whereas negative correlation reveals that the increase in NW leads to decrease in DPS and vice-versa.

While comparing probable error (PE) with correlation ®, the correlation coefficient of SICL is greater than 6 PE, so the relationship between DPS and NW is significant. But this relationship for all other companies is not significant because coefficient of correlation is less than 6 PE in those cases. It means that the net worth of the insurance companies does not affect the declaration of dividend amount.

4.3.5 Relationship between Dividend Per Share and Net Profit

Table-4.18

Correlation Analysis of DPS and NP

Companies	CORR ®	Relationship	r2	PE	6PE	Significant test
PICL	(0.574)	Negative	0.329	0.185	1.110	Not Significant
HGICL	0.167	Low relationship	0.028	0.268	1.608	Not Significant
SICL	0.322	Positive	0.103	0.247	1.482	Not Significant
AICL	0.793	Positive	0.629	0.102	0.612	Significant
UICL	(0.189)	Negative	0.036	0.265	1.590	Not Significant
EICL	0.431	Positive	0.185	0.224	1.344	Not Significant
NECOICL	0.00	No relationship	0.00	0.275	1.650	Not Significant

From the analysis of correlation coefficient, it is seen that the relationship between dividend per share and net profit is positive in all companies except in PICL and UICL. Positive correlation means increased dividend with the increment in net profit. But, in case of PICL and UICL, there is negative relationship between DPS and net profit. In case of NECOICL, there seems relationship existing between DPS and NP. It means that DPS is not affected by net profit.

The coefficient of correlation (r) is greater than 6PE in case of AICL, so the relationship

between DPS and NP is significant. It indicates that the increase or decrease in payment of dividend depends upon net profit. But, rest of the companies have coefficient of correlation lesser than 6PE, so the relationship between DPS and NP is not significant or payment of dividend does not depend on net profit.

4.4 Regression Analysis

The regression analysis is a statistical tool, which is commonly used to determine the statistical relationship between two or more variables and to make prediction of one variable on the basis of the other variables. The regression analysis can either be simple regression or multiple regressions. When we take only one independent variable and forecast the value of the dependent variable, such type of analysis is known as simple regression analysis. If the analysis is performed using two or more independent variables it is known as multiple regression analysis. The simple regression analysis has been performed for individual sample companies. Here, the relevant data are used to predict how one variable is related to other variable in order to know the impact on the dividend practices of insurance companies. This analysis measures the effect of change in independent variable to dependent variable. Here, in case of DPS on EPS, DPS is dependent variable and EPS is independent variable but in case of MPS on DPS, NW on DPS, MPS and NW are dependent variables respectively and DPS is independent variable. In case of MPS on EPS, MPS is dependent and EPS is independent variable. There must be either's positive or negative relationship between dependent and independent variables

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4.4.1 Simple Regression analysis of DPS on EPS

Table No 4.19

Simple Regression Analysis of DPS on EPS

Regression equation: Y = a + bx

Insurance Companies	Constant (a)	Regression Coefficient (b)	R^2
PICL	60.775	(1.401)	0.159
HGICL	11.137	0.70	0.028
SICL	(13.627)	0.95	0.187
AICL	(5.84)	0.95	0.633
UICL	(12.911)	1.318	0.243
EICL	7.833	0.250	0.238
NECOICL	0.00	0.00	0.00

Note: x and y represent EPS and DPS respectively.

The above table illustrates the output of simple regression analysis between dividend per share and earning per share of concerned insurance companies. The simple regression result represented in table clearly shows that the regression coefficient (b) is positive in all companies (i.e. 0.70, 0.95, 0.95, 1.318, and 0.250 respectively) except PICL and NECOICL (i.e. (1.401) and 0.00). The regression coefficient of UICL is the highest. The positive coefficient indicates that one rupee increase in EPS leads to average increase of Rs.0.70, 0.95, 0.95, 1.318, and 0.250 in dividend per share of HGICL, SICL, AICL, UICL, and EICL respectively. But in case of PICL, regression coefficient is negative and NECOICL has zero coefficients. It means one rupee increase in EPS leads to average decrease of 1.401 in dividend per share of PICL and there is no change in EPS and DPS in case of NECOICL.

The positive constant (a) means that if EPS is zero, then, the companies' expected dividend will be equal to constant value and the negative constant (a) indicates that if EPS is zero, the companies will not be able to pay dividend to its shareholders. Thus, the constant (a) value for three insurance companies are negative, one company is zero and the remaining companies are positive. The constant value (a) of selected insurance companies PICL, HGICL, SICL, AICL, UICL, EICL and NECOICL are 60.775, 11.137, (13.627), (5.84), (12.911), 7.833 and 0.00 respectively.

The coefficients of determination (R2) for the insurance companies are 0.159, 0.028,

0.187, 0.633, 0.243, and 0.238 respectively. This means that 15.9%, 2.8%, 18.7%, 63.30%, 24.30%, and 23.80% variation in DPS is explained by EPS in case of PICL, HGICL, SICL, AICL, UICL and EICL respectively. Since the coefficient of determination for NECOICL is zero, the variation in DPS is not explained by DPS.

4.4.2 Simple Regression analysis of MPS on DPS

Table 4.20

Simple Regression Analysis of MPS on DPS

Regression equation: Y = a + bx

Insurance Companies	Constant (a)	Regression Coefficient (b)	R^2
PICL	222.377	0.30	0.110
HGICL	224.147	0.261	0.040
SICL	196.675	0.040	0.000
AICL	118.00	(0.60)	0.066
UICL	178.139	(0.508)	0.019
EICL	382.185	(1.837)	0.036
NECOICL	115.33	0.00	0.000

Note: x and y represent DPS and MPS respectively.

The above table shows the result of simple regression analysis between MPS and DPS. The regression coefficient (b) of all sampled insurance companies is positive. The above table indicates that one rupee increase in dividend leads to average increase of Rs.0.30, Rs.0.261 and Rs.0.040 in market price of share of PICL, HGICL and SICL. In the same way, one rupee increase in dividend leads to average decrease in Rs.0.60, 0.508 and 1.837 in market price of share of AICL, UICL and EICL respectively. But, for NECOICL regression coefficient value b is zero; therefore, there is no effect of MPS on DPS. The analysis shows that the regression coefficient of EICL is the highest of all other companies.

In case of PICL, HGICL, SICL, AICL, UICL, EICL and NECOICL, the constant (a) are Rs.222.377, Rs.224.147, Rs.196.675, Rs.118.000, Rs.178.139, 382.185 and Rs.115.330.
The coefficient of determination (R2) is 0.00, signifies there is no variation. So that SICL and NECOICL have no variation. Rest of the companies have coefficient of determination of 0.110, 0.040, 0.066, 0.019, and 0.036 respectively which indicate that 110%, 4.00%,

6.60%, 1.90% and 3.60% variation in MPS is explained by DPS.

4.4.3 Simple Regression analysis of MPS on EPS

Table-4.21

Simple Regression Analysis of MPS on EPS

Regression equation: Y = a + bx

Insurance Companies	Constant (a)	Regression Coefficient (b)	R^2
PICL	278.793	(1.765)	0.308
HGICL	400.52	(4.38)	0.700
SICL	328.256	(5.678)	0.409
AICL	123.192	(0.718)	0.067
UICL	200.00	(1.456)	0.022
EICL	273.857	2.347	0.259
NECOICL	114.758	0.230	0.014

Note: x and y represent EPS and MPS respectively.

The above table describes the relationship analysis between MPS and EPS of sample insurance companies. The regression coefficient (b) of PICL, HGICL, SICL, AICL, UICL and EICL is negative which represents that one rupee increase in EPS leads to an average decreases in MPS by Rs.1.765, 4.38, 5.678, 0.718 and 1.456 respectively. But, EICL and NECOICL has positive regression coefficient, which implies positive impact of MPS on EPS. In other words, one rupee increase in earning leads to average increase of Rs.2.347 and 0.230 of EICL and NECOICL respectively.

The constant (a) of sampled insurance companies are Rs.278.793, Rs.400.52, Rs.328.256, Rs.123.192, Rs200.00, Rs.273.857 and Rs.114.758 which means than the companies market price of stock will be Rs.278.793, Rs.400.52, Rs.328.256, Rs.123.192, Rs200.00, Rs.273.857 and Rs.114.758 respectively.

The coefficient of determination (R2) is 0.014 in case of NECOICL which is negligible meaning only a little variation on MPS is explained by EPS. At the same time, R2 of PICL, HGICL, SICL, AICL, UICL and EICL are 0.308, 0.700, 0.409, 0.067, 0.22 and 0.259 respectively. The coefficient of determination for HGICL is 0.700 which is higher than

those of other companies.

4.4.4 Simple Regression analysis of NW on DPS

Table-4.22

Simple Regression Analysis of NW on DPS

Regression equation: Y = a + bx

Insurance Companies	Constant (a)	Regression Coefficient (b)	R^2
PICL	93.04	0.131	0.121
HGICL	103.365	0.0162	0.002
SICL	140.738	0.379	0.027
AICL	130.510	2.973	0.183
UICL	134.802	(0.385)	0.209
EICL	76.050	(1.314)	0.237
NECOICL	81.698	0.000	0.000

Note: x and y represent dividend per share and net worth per share.

The above table shows that the regression coefficient have positive sign for NW and DPS in case of, PICL, HGICL, SICL and AICL. The regression coefficient of AICL is higher than those other insurance companies i.e. Rs.2.973 million, assuming other variables remain constant. It indicates that the net worth increases by Rs.2.973, if the DPS increases by Rs.1.00 per share. But, in case of UICL and EICL, the regression coefficient is negative which implies the inverse impact of DPS on net worth i.e. one rupee increase in dividend leads to decrease of Rs.0.385 and 1.314 million. In case of NECOICL, the regression coefficient value b is zero, so that there is no effect on net worth.

The constant (a) for PICL, HGICL, SICL, AICL, UICL, EICL and NECOICL are Rs.93.04, Rs.103.365, Rs.140.738, Rs.130.51, Rs.134.802 and Rs.81.698 respectively. The constant for HGICL is the highest than other companies i.e. Rs.140.738. It shows that the average NW would be Rs.140.738, if the DPS were zero.

4.5 Test of Hypothesis

A hypothesis is a logically conjectured relationship between two or more variables expressed in the forms of testable statements. The test of hypothesis discloses the fact

whether the difference between the computed statistics and hypothetical parameters is significant. Due to more than two samples, F test called "analysis of variance" is done to find the uniformity of DPS, EPS and MPS.

4.5.1 First hypothesis Test

Null Hypothesis H0: $\Uparrow_1 = \Uparrow_2 = \Uparrow_3 = \Uparrow_4 = \Uparrow_5 = \Uparrow_6 = \Uparrow_7$

There is no significant difference in DPS of insurance companies.

Alternative Hypothesis H_1: $\Uparrow_1 \neq \Uparrow_2 \neq \Uparrow_3 \neq \Uparrow_4 \neq \Uparrow_5 \neq \Uparrow_6 \neq \Uparrow_7$

There is significant difference in DPS of insurance companies.

Table-4.23

One-way ANOVA Table

Sources of variation	d.f	Sum of Squares (SS)	Mean sum of squares (MSS) = SS (d.f)	F-ratio
Between sample	7 – 1 =6	5537.49	$\frac{5537.49}{6}$ = 922.915	f = $\frac{922.915}{877.308}$ = 1.052
With in sample	41 –6 = 35	30705.77	$\frac{30705.77}{35}$ = 877.308	
Total	42 – 1 = 41			

Critical Value

The tabulated value of F at 5 % level of significance for 6 and 35/40 degree of freedom is 2.25.

Decision

At 5% level of significance, calculated 'f' value is lower than tabulated 'f' value. Thus, we may conclude that the null hypothesis is acceptable. It means that there is no significant difference in dividend per share (DPS) of insurance companies of Nepal. In other words there is uniformity in paying dividend by the insurance companies of Nepal.

4.5.2 Second Hypothesis Test

Null Hypothesis H0: $\Uparrow_1 = \Uparrow_2 = \Uparrow_3 = \Uparrow_4 = \Uparrow_5 = \Uparrow_6 = \Uparrow_7$

That is population mean EPS of insurance companies are homogeneous.

Alternative Hypothesis H_1: $\Uparrow_1 \neq \Uparrow_2 \neq \Uparrow_3 \neq \Uparrow_4 \neq \Uparrow_5 \neq \Uparrow_6 \neq \Uparrow_7$

That is population mean EPS of insurance companies are not homogeneous.

Table-4.24

One-way ANOVA Table

Sources of Variation	d.f	Sum of Squares (SS)	Mean sum of squares (MSS = SS (d.f)	F-ratio
Between sample	7 – 1 =6	5564.77	$\frac{5564.77}{6} = 927.46$	$f = \frac{927.46}{204.15} = 4.54$
With in sample	41 – 6 = 35	7145.42	$\frac{7145.42}{35} = 204.15$	
Total	42 – 1 = 41			

Critical Value

The tabulated value of F at 5 % level of significance for 6 and 35/40 degree of freedom is 2.25.

Decision

Since calculated f value i.e. 4.54 which is greater than tabulated f value at 5% level of significance. Thus, we may conclude that the alternative hypothesis is acceptable. It means that population mean EPS of insurance companies are not homogeneous. In other words there is no uniformity in EPS of insurance companies in Nepal.

4.5.3 Third Hypothesis Test

Null Hypothesis H0: $\Uparrow_1 = \Uparrow_2 = \Uparrow_3 = \Uparrow_4 = \Uparrow_5 = \Uparrow_6 = \Uparrow_7$

There is no significant difference in MPS of insurance companies.

Alternative Hypothesis H_1: $\Uparrow_1 \neq \Uparrow_2 \neq \Uparrow_3 \neq \Uparrow_4 \neq \Uparrow_5 \neq \Uparrow_6 \neq \Uparrow_7$

There is significant difference in MPS of insurance companies.

Table- No 4.25

One-way ANOVA Table

Sources of variation	d.f	Sum of Squares (SS)	Mean sum of squares (MSS = SS (d.f)	F-ratio
Between sample	7 – 1 =6	242162.67	$\frac{242162.67}{6} = 40360.445$	$f = \frac{40360.445}{5142.724} = 7.85$
With in sample	41 – 6 = 35	179995.33	$\frac{179995.33}{35} = 5142.724$	
Total	42 – 1 = 41			

Critical Value

The tabulated value of F at 5 % level of significance for 6 and 35/40 degree of freedom is 2.25.

Decision

The calculated 'f' value is greater than tabulated 'f' value. Therefore, the alternative hypothesis is acceptable. It means that there is significant difference in market price of share (MPS) of insurance companies in Nepal. In other words, there is no uniformity in MPS of insurance companies in Nepal.

4.6 Major Findings

By analyzing the secondary data the major findings of this study can be summarized as bellow.

- The average EPS for HGICL is Rs.38.02. It is the highest of the selected insurance companies and comparatively satisfactory during the period of study. But, some insurance companies do not have satisfactory EPS. NECOICL has the lowest

average EPS of Rs.2.50. There is the highest 282% C.V of NECOICL and SICL has the lowest C.V of 29%. It shows that SICL has the lower variability in its EPS but, NECOICL has greater variability in its earning. Thus, the coefficient of variation (C.V) indicates that the EPS of insurance companies are not stable.

- The average DPS indicates that the most of companies are not paying dividend regularly. Only EICL has paid regular dividend during the period of study. PICL has not paid the dividend in the year 2003/04, 2004/05, 2005/06 and 2007/08. HGICL has not paid the dividend in the year 2003/04, 2004/05 and 2004/05. SICL has not paid the dividend in the year 2003/04, 2004/05, 2006/07 and 2007/08. AICL has paid the dividend only in the year 2005/06 and 2006/07. UICL has not paid the dividend in the year 2003/04 and 2007/08. EICL has not paid the dividend only in the last year 2007/08. NECOICL has not paid any dividend during the whole study period.
- The average DPS of HGICL is higher among all, i.e. Rs.37.75, which is comparatively satisfactory whereas NECOICL has the lowest DPS of Rs.0.00. The C.V of DPS for selected insurance companies ranges from 0.00% to 203% during the period of study. It means that there is high variation in DPS of insurance companies. It is not the good news to the investors of insurance companies because it increases the risk for them.
- Similarly, the analysis of DPR indicates that the insurance companies of Nepal are not following stable dividend Policy. All the companies did not seem to adopt fixed dividend payout ratio. The C.V of sample insurance companies ranges from 0.00% to 204%. The average DPR of PICL is highest among all and NECOICL has the lowest DPR with greater variability.
- The average dividend yield of the HGICL is higher than other insurance companies i.e. 15.86% but it is not encouraging figure in share market whereas NECOICL has the lowest DYR of 0.00%. The company is not paying any cash or stock dividend during the study period. And, the second lowest average DYR is 4.29% of SICL. It is negligible in comparison with the market price of share. Beside the dividend yield ratio is very low, the C.V of PICL is 197%. It indicates that there is highest fluctuation in DYR. EICL has the lowest C.V of 89%.
- The average P/E ratio is quite low and ranges from 4.09 to 77.12 during the period of

study. NECOICL has highest the P/E ratio of 77.12 but, it has high degree of fluctuation, shown by the C.V of 125%. EICL has the lowest average P/E ratio of 4.09 and its C.V is 234%.

- The market price per share to book value per share ratio shows that the MPS is always higher than the BVPS. The average ratio from MPS and BVPS is nearly similar ranges between 0.46 to 1.68. EICL has the highest average MPS to BVPS ratio and AICL has the lowest ratio. The highest C.V. is 49% for SICL which shows the greater fluctuation in MPS to BVPS and NECOICL has lower C.V. of 13% which shows more consistency in MPS to BVPS.
- The correlation between DPS and EPS, DPS and MPS, EPS and MPS, DPS and NW, DPS and NP shows mixed result i.e. some insurance companies have positive correlation and some have negative correlation, which indicates that there is no specific trend in this regard that is applicable for all insurance companies.
- The relationship between DPS and EPS is positive in case of SICL, AICL, UICL, and EICL, which means that the higher the EPS the higher will be the DPS. On the other hand, HGICL has positive but lower degree of relationship and NECOICL has no relationship between EPS and DPS. It shows that EPS does not affect the DPS. In the same way, PICL has negative correlation between DPS and EPS. It means as DPS increases, EPS decreases and vice versa. The highest degree of relationship between DPS and EPS is found in AICL and lowest in HGICL. Only AICL has significant relationship between DPS and EPS. It implies that DPS of AICL is affected by the EPS but, it is not so in case of remaining sample companies i.e. there may be other factors to affect the dividend of the company.
- The relationship between DPS and MPS is positive in case of PICL and HGICL. The insurance company SICL has positive but lower degree of relationship. In the same way, AICL, UICL, and EICL have negative relationship and NECOICL has no relationship between DPS and MPS. By testing the significance between DPS and MPS, the relationship between MPS and DPS is not found to be significant in the insurance companies. It indicates that DPS is not a major factor to affect the MPS of insurance company in Nepal.
- The analysis of correlation between EPS and MPS shows the existence of negative

relation in case of PICL, HGICL, SICL, AICL and UICL whereas the rest insurance companies EICL and NECOICL have positive relationship. It is observed that the EPS of companies does not affect MPS.

- The DPS and NW are positively correlated in case of PICL and AICL. Higher positive relationship is found in case of AICL with insignificant relationship at 5% level of significance. There is positive but lower degree relationship between DPS and NW in case of HGICL and SICL. In the same way, UICL and EICL have negative correlation with insignificant relationship and there is no relationship between DPS and NW in case of NECOICL. The insignificant relationship indicates that NW does not affect DPS of the company.
- Similarly, the DPS and NP are positively correlated in case of SICL, AICL and EICL. It means there is positive relationship between DPS and Net Profit. In the same way, HGICL has positive but lower degree of relationship. Higher positive relationship is found in case of AICL with significant relationship at 5% level of significance. PICL and UICL have negative correlation with insignificant relationship and there is no relationship in case of NECOICL. The insignificant relationship indicates that NW does not affect DPS of the company.
- In case of simple regression analysis, it is observed from the equation of DPS on EPS that the positive regression coefficient (b) existed in case of all sample insurance companies, except PICL, that implies the positive relation. The regression coefficient of UICL is 1.318, which is the highest of all insurance companies. It indicates that Rs.1 increase in EPS leads to increase of Rs. 1.318 in an average in DPS. The relation is statistically insignificant in case of all the sample insurance companies.
- The regression analysis on MPS on DPS indicates that the regression coefficient (b) is positive in case of all the companies except AICL, UICL and EICL. The regression coefficient for PICL is the highest of all. The results are statistically insignificant in case of all companies. It indicates that DPS is not a major factor to determine of MPS of the company.
- The regression analysis between MPS on EPS shows that the regression coefficient (b) is positive only in EICL and NECOICL. And, rest of the insurance companies

have negative regression coefficient. The highest regression coefficient of EICL is 2.347 which mean one rupee increase in EPS leads to 2.347 increase in MPS.

- With respect to impact of NW on DPS, mixed result is found in all sample insurance companies. UICL and EICL are found with negative while PICL, HGICL, SICL and AICL have found to have positive regression coefficient. The regression coefficient of AICL is 2.973, which is the highest of all. The result is statistically insignificant. It indicates that dividend amount is not a major factor to determine the net worth (NW) of insurance companies.
- From the test of hypothesis (ANOVA), it is found from the first hypothesis test that there is no significant difference in dividend per share (DPS) of insurance companies in Nepal. In other words, there is uniformity in paying dividend by the insurance companies. Similarly, from the second hypothesis test it is observed that population mean EPS of insurance companies are not homogeneous. In other words, there is no uniformity in EPS of insurance companies in Nepal. In the same way, the third hypothesis test shows that there is significant difference in market price per share (MPS) of insurance companies in Nepal. In other words, there is no uniformity in MPS of insurance companies in Nepal, at 5% level of significance on the basis of f-test.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Summary and Conclusion

Dividend refers to the distribution of earnings to the shareholders or the company as a return to their investment. Dividend decisions are taken as major decisions made on the financial management, which helps to determine how the company's earnings should be divided between retention for the purpose of reinvest on the business and pay out as dividend to shareholders. Paying dividend to the shareholders is an effective way to attract new investor and maintain present investors.

The main objectives of investors investing in stocks are to earn dividend or capital gain. The earnings of shareholders can be divided as dividend gain and capital gain. High payout satisfies the dividend need whereas increase in market price of stock increases capital gain. Therefore, it is important to make a wide policy that should maintain a proper balance between growths of insurance companies through retained earnings and fulfill the shareholders' expectations.

The dividend may be affected by different factors like earning of the firm, liquidity position of the firm, new worth etc. These factors indicate the financial position of the company. If the company has good financial position, it will able to provide return in the form of dividend.

The study mainly aims to assess the dividend policy and practices of insurance companies of Nepal. Its specific objectives are ***(i)*** to examine the relationship between dividends with market price per share, earning per share, book value per share, net worth and net earning of the insurance companies. ***(ii)*** To analyze the impact of dividend on share or stock price. ***(iii)*** To analyze the factors affecting dividend policy of insurance companies ***(iv)*** to provide the workable suggestion and possible guidelines to overcome various gaps based on the findings of the analysis.

This study is based on the secondary data of seven insurance companies (PICL, HGICL, SICL, AICL, UICL, EICL and NECOICL) listed in Nepal Stock Exchange covering 6 years i.e. from 2002/03 to 2007/08. The available data have been analyzed by using mean, standard deviation; coefficient of variation (CV), correlation coefficient (r) simple regression analysis, Mean, standard deviation and coefficient of variation (CV) are used to determine the financial strength of the sample insurance companies. Correlation analysis is used to calculate the degree of relationship between EPS and DPS, DPS and MPS, EPS and MPS, DPS and NW and DPS and NP. Simple regression analysis is used to know the dependency of DPS on EPS, MPS on DPS, MPS on EPS and NW on DPS. And the test of hypothesis is used to analysis the uniformity of DPS, EPS and MPS.

The researcher now would like to present the main conclusions that have gained from the study. Following are the main conclusions of the study.

- Most of the insurance companies of Nepal give first priority to earnings to get into the decision of dividend and the next priority is given to the past dividend. Beside that, concern about change in the stock price, priority also influences the dividend policy of the insurance companies of Nepal.
- DPS and EPS are positively correlated in all companies, which means higher the EPS, higher will be the DPS.
- There is no uniformity in dividend distribution policy adopted by insurance companies in Nepal.
- Most companies are not paying regular cash dividend.
- The insignificant relationship between DPS and other financial variables (i.e. EPS, MPS, NW and NP) indicate that the dividend policy of most of the companies is not good. It seems that the sample insurance companies are not adopting any particular dividend policy; they are adopting the dividend policy according to their requirement with the change in time.
- More or less earning per share, retention ratio, net profit and net worth per share in different insurance companies affect the dividend per share.
- Change in DPS affects the market price per share differently for different companies.
- For some companies, dividend is not only a factor that affects the market price of

share. There are other factors as well to affect the market price of share. But for those companies, which have just begun in the field of insurance, dividend is a major factor in determination of MPS and for those companies having long term exercise in the field of insurance, dividend payment impacts negatively on MPS.

- There is fluctuation in the dividend payment although insurance companies are making profit regularly. The dividend payout ratio does not indicate any stability.
- P/E ratio and DYR are not similar among insurance companies in Nepal.

5.2 Recommendation

This study is concerned with dividend policy and practices of insurance companies and it may be suitable to provide some recommendations in the light of major findings and conclusions. The recommendations are,

- Dividend decision is one of the major decisions of managerial finance as it directly or indirectly determines and affects the maximization of the wealth of shareholders. Therefore, every company needs to define, develop and follow up proper dividend policy, payment procedures and strategy. They need to adopt optional and long-term dividend policy in order to meet the shareholders' expectations.
- Formulation of dividend policy will obviously guide the dividend decision of the company. So, the policy should determine whether the company is going to adopt a stable dividend policy, constant payout ratio or low regular plus extra dividend policy.
- The government should clearly define the rules and regulation in this regard because it is essential for the smooth growth of the companies, improvement of economy and for the protection of shareholders' right.
- In the context of Nepal, DPS seems least affecting in the market price per share. It may be due to the lack of knowledge in the past of investors and unavailability of sufficient information. Therefore, investors must be made aware of stock market along with supplying sufficient information required for investment.
- There is uniformity in payment of dividend of insurance companies, it means neither static nor constantly grow. It affects the market price of share and creates misunderstanding about the company's financial position. Thus the concerned institution may call the meeting of each insurance company before the dividend

declaration is made.

- This analysis clearly shows the insignificant relationship between market price and other influencing variables. It means that the shareholders are making investment without considering the company's financial performance and positions. It shows that the investors are not rational. Thus, it is better for the investors to understand the market and study the financial position and performance of the insurance companies before making investment.
- The financial executives and shareholders of the concerned institutions should organize and conduct different awareness programs regarding dividends and investment.

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APPENDIX-A

Primer Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW	BVPS
2002/03	10.00	20.00	192	30000000	69374608	231.25
2003/04	0.00	25.12	210	30000000	80368024	267.89
2004/05	0.00	46.70	210	30000000	96278002	320.93
2005/06	0.00	43.54	200	30000000	113060113	376.87
2006/07	115.80	18.43	260	63000000	110367054	175.19
2007/08	0.00	16.61	300	63000000	105295072	167.14

Himalayan General Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW (million)	BVPS
2002/03	105.00	59.00	190.00	30000000	75158887	250.53
2003/04	0.00	45.13	175	30000000	89691901	289.97
2004/05	0.00	36.70	205	30000000	104518972	348.40
2005/06	0.00	39.90	189	30000000	121815094	406.00
2006/07	110.00	25.10	300	30000000	134117950	447.00
2007/08	11.00	22.28	345	30000000	98565984	328.55

Sagarmatha Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW (million)	BVPS
2002/03	10.00	20.40	150.00	51000000	88745000	174.01
2003/04	0.00	28.15	131	56100000	120357000	214.54
2004/05	0.00	30.21	158	56100000	134046000	238.94
2005/06	40.00	30.13	210	56100000	169841000	302.75
2006/07	0.00	14.72	227	78540000	190765000	242.89
2007/08	0.00	15.09	306	102102000	159619000	156.33

Alliance Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW (million)	BVPS
2002/03	0.00	16.17	110.00	50000000	84580000	169.16
2003/04	0.00	4.00	103	50000000	87156000	174.31
2004/05	0.00	6.64	110	50000000	119392000	238.78
2005/06	10.00	13.15	102	50000000	164501000	329.00
2006/07	20.00	22.25	111	50000000	187842000	375.68
2007/08	0.00	6.27	154	60000000	228782000	361.30

United Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW	BVPS
2002/03	55.00	31.28	138.00	56621500	105938558	187.00
2003/04	0.00	23.91	105.00	56621500	115192362	203.44
2004/05	3.00	16.86	128.00	56623500	122528809	216.39
2005/06	1.00	14.46	125.00	60000000	143466060	239.11
2006/07	17.50	8.00	219.00	72000000	153686311	213.45
2007/08	0.00	22.31	315.00	72000000	138545351	192.42

Everest Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW	BVPS
2002/03	10.00	61.75	610.00	30000000	71586351	238.62
2003/04	21.65	57.22	350	30000000	82254420	274.18
2004/05	10.00	33.74	325	30000000	61473419	204.91
2005/06	43.00	41.81	295	30000000	72436875	241.45
2006/07	12.5	24.54	219	90000000	142579633	158.42
2007/08	0.00	(18.44)	315	101250000	153626627	151.73

NECO Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW	BVPS
2002/03	0.00	12.11	130.00	50000000	77461664	154.92
2003/04,	0.00	8.87	112	50000000	81895212	163.79
2004/05	0.00	3.00	110	55000000	82124207	149.32
2005/06	0.00	0.54	90	55000000	82419941	149.85
2006/07	0.00	(10.03)	121	55000000	87845145	159.72
2007/08	0.00	0.52	129	55000000	78442074	142.62

APPENDIX-B

Earning Per Share (EPS) - Rs.

Yrs/Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V
PICL	20.00	25.12	46.70	43.54	18.43	16.61	28.40	12.14	0.43
HGICL	59.00	45.13	36.70	39.90	25.10	22.28	38.02	12.32	0.32
SICL	20.40	28.15	30.21	30.13	14.72	15.09	23.12	6.67	0.29
AICL	16.17	4.00	6.64	13.15	22.25	6.27	11.41	6.42	0.56
UICL	31.28	23.91	16.86	14.46	8.00	22.31	19.47	7.42	0.38
EICL	61.75	57.22	33.74	41.81	24.54	(18.44)	33.44	26.48	0.79
NECL	12.11	8.87	3.00	0.54	(10.03)	0.52	2.50	7.05	2.82
Y.Ave.	31.53	27.49	24.84	26.22	14,72	9.23	22.34	11.21	0.80

Dividend Per Share (DPS) – Rs.

Yrs/ Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V
PICL	10.00	0.00	0.00	0.00	115.80	0.00	22.97	42.57	2.03
HGICL	105.00	0.00	0.00	0.50	110.00	11.00	37.75	49.49	1.31
SICL	10.00	0.00	0.00	40.00	0.00	0.00	8.33	14.62	1.75
AICL	0.00	0.00	0.00	10.00	20.00	0.00	5.00	7.64	1.53
UICL	55.00	0.00	3.00	1.00	17.50	0.00	12.75	19.86	1.56
EICL	10.00	21.65	10.00	43.00	12.5	0.00	16.19	13.55	0.84
NECL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Y.Ave.	27.14	3.09	1.86	13.50	39.40	1.57	14.43	21.10	1.29

Dividend Payout Ratio (DPR) - %

Yrs/ Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V
PICL	50.00	0.00	0.00	0.00	628.00	0.00	113.00	231.04	2.04
HGICL	180.00	0.00	0.00	0.00	438.00	49.37	111.23	159.40	1.43
SICL	49.02	0.00	0.00	132.75	0.00	0.00	30.30	49.19	1.62
AICL	0.00	0.00	0.00	76.00	90.00	0.00	27.67	39.33	1.42
UICL	175.83	0.00	17.80	7.00	218.75	0.00	69.90	91.12	1.30
EICL	16.20	37.84	29.64	102.85	50.94	0.00	39.58	32.52	0.82
NECL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Y.Ave.	67.29	5.41	6.78	45.51	203.67	7.05	55.95	86.09	1.24

Dividend Yield Ratio (DYR) - %.

Yrs/ Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V
PICL	5.21	0.00	0.00	0.00	44.54	0.00	8.29	16.32	1.97
HGICL	55.26	0.00	0.00	0.00	36.67	3.20	15.86	21.99	1.39
SICL	6.67	0.00	0.00	19.05	0.00	0.00	4.29	7.04	1.64
AICL	0.00	0.00	0.00	9.80	18.02	0.00	4.64	6.97	1.50
UICL	39.85	0.00	2.34	0.00	8.00	0.00	8.37	14.36	1.72
EICL	2.00	6.20	3.08	14.58	5.71	0.00	5.26	4.67	0.89
NECL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Y. Ave.	15.57	0.89	0.77	6.20	16.13	0.46	6.67	10.19	1.52

Price Earning Ratio (P/E Ratio)

Yrs/ Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V
PICL	9.60	8.36	5.00	4.60	14.11	18.06	9.96	4.81	0.48
HGICL	3.22	3.88	5.60	4.74	11.95	15.48	7.48	4.58	0.61
SICL	7.35	4.65	5.23	7.00	15.42	20.28	9.99	5.81	0.58
AICL	6.80	25.75	16.57	7.76	5.00	24.56	14.41	8.44	0.59
UICL	4.41	4.39	7.60	8.64	27.38	14.12	11.09	7.98	0.72
EICL	9.88	6.12	9.63	7.06	8.92	(17.08)	4.09	9.56	2.34
NECL	10.73	12.63	36.67	166.67	(12.06)	248.08	77.12	96.09	1.25
Y.Ave.	7.43	9.40	12.33	29.50	10.10	46.21	19.16	19.61	0.94

MPS to BVPS

Yrs /Companies	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V
PICL	0.83	0.78	0.65	0.53	1.48	1.79	1.01	0.46	0.46
HGICL	0.75	0.60	0.59	0.47	0.67	1.05	0.69	0.18	0.27
SICL	0.86	0.61	0.66	0.69	0.93	1.95	0.95	0.46	0.49
AICL	0.65	0.59	0.46	0.31	0.30	0.43	0.46	0.13	0.29
UICL	0.74	0.52	0.59	0.52	1.03	1.64	0.84	0.40	0.47
EICL	2.55	1.28	1.59	1.22	1.38	2.08	1.68	0.48	0.29
NECL	0.84	0.68	0.74	0.60	0.75	0.90	0.75	0.10	0.13
Yearly Ave.	1.03	0.72	0.75	0.62	0.94	1.40	0.91	0.32	0.34

APPENDIX – C

CALCULATION OF HYPOTHESIS ABOUT UNIFORMITY

Calculation for 1st hypothesis about uniformity of DPS for table 4.23

Year	PICL(X_1)	HGICL (X_2)	SICL (X_3)	AICL (X_4)	UICL (X_5)	EICL (X_6)	NECO (X_7)
2002/03	10.00	105.00	10.00	0.00	55.00	10.00	0.00
2003/04	0.00	0.00	0.00	0.00	0.00	21.65	0.00
2004/05	0.00	0.00	0.00	0.00	3.00	10.00	0.00
2005/06	0.00	0.50	40.00	10.00	1.00	43.00	0.00
2006/07	115.80	110.00	0.00	20.00	17.50	12.50	0.00
2007/08	0.00	11.00	0.00	0.00	0.00	0.00	0.00
Total	125.80	226.00	50.00	30.00	76.50	97.15	0.00
Average	22.97	37.75	8.33	5.00	12.75	16.19	0.00

Grand Total $= 125.80 + 226.00 + 50.00 + 30.00 + 76.50 + 97.15 + 0.00$

$= 605.45$

Correlation Factor (C.F) $= \frac{T^2}{N} = \frac{(605.45)2}{42} = 8727.85$

Total Sum of Squares (TSS) $= x_1^2 + x_2^2 + x_3^2 + \ldots\ldots\ldots + x_{42}^2 - C.F$

$= 10.00^2 + 105.00^2 + 10.00^2 + \ldots\ldots\ldots + 0.00^2 - 8727.85$

$= 44971.11 - 8727.85$

$= 36243.26$

Sum of Square Between Sample (SSB)

$$= \frac{\phi x_1^2}{x_1} + \frac{\phi x_2^2}{x_2} + \frac{\phi_3^2}{x_3} + \ldots\ldots\ldots + \frac{\phi x_7^2}{x_7} \text{ C.F}$$

$$= \frac{(125.80)^2}{6} + \frac{(226.00)^2}{6} + \frac{(50.0)^2}{6} + \ldots\ldots\ldots + \frac{(0.00)2}{6} - 8727.85$$

$= 14265.34 - 8727.85$

$= 5537.49$

Sum of Square With in sample (SSW)

= TSS – SSB

= 36243.26 – 5537.49

= 30705.77

CALCULATION OF HYPOTHESIS ABOUT UNIFORMITY

Calculation for 2nd hypothesis about uniformity of EPS for table 4.24

Year	**PICL(X_1)**	**HGICL (X_2)**	**SICL (X_3)**	**AICL (X_4)**	**UICL (X_5)**	**EICL (X_6)**	**NECO (X7)**
2002/03	20.00	59.00	20.40	16.17	31.28	61.75	12.11
2003/04	25.12	45.13	28.15	4.00	23.91	57.22	8.87
2004/05	46.70	36.70	30.21	6.64	16.86	33.74	3.00
2005/06	43.54	39.90	30.13	13.15	14.46	41.81	0.54
2006/07	18.43	25.10	14.72	22.25	8.00	24.54	-10.03
2007/08	16.61	22.28	15.09	6.27	22.31	-18.44	0.52
Total	170.40	228.11	138.70	68.48	116.82	200.62	15.01
Average	28.40	38.02	23.12	11.41	19.47	33.44	2.50

Grand Total = 170.40 + 228.11 + 138.70 + 68.48 +116.82 + 200.62 + 15.01

= 938.14

Correlation Factor (C.F) = $\frac{T^2}{N} = \frac{(938.14)2}{42} = 20954.92$

Total Sum of Squares (TSS) = $x_1^2 + x_2^2 + x_3^2 + ... + x_{42}^2 - C.F.$

$= 20^2 + 59^2 + 20.40^2 + ... + 0.52^2 - 20954.92$

= 33665.11 – 20954.92

= 12710.19

Sum of Square Between Sample (SSB)

$$= \frac{\phi x_1^2}{x_1} + \frac{\phi x_2^2}{x_2} + \frac{\phi_3^2}{x_3} + \ldots\ldots + \frac{\phi x_7^2}{x_7} - C.F$$

$$= \frac{(170.40)2}{6} + \frac{(228.11)2}{6} + \frac{(138.70)2}{6} + \ldots\ldots + \frac{(15.01)2}{6} - C.F$$

$$= 26519.69 - 20954.92$$

$$= 5564.77$$

Sum of Square With in sample (SSW)

$$= TSS - SSB$$

$$= 12710.19 - 5564.77$$

$$= 7145.42$$

CALCULATION OF HYPOTHESIS ABOUT UNIFORMITY

Calculation for 3rd hypothesis about uniformity of MPS for table 4.25

Year	PICL(X_1)	HGICL (X_2)	SICL (X_3)	AICL (X_4)	UICL (X_5)	EICL (X_6)	NECO (X7)
2002/03	192.00	190.00	150.00	110.00	138.00	610.00	130.00
2003/04	210.00	175.00	131.00	103.00	105.00	350.00	112.00
2004/05	210.00	205.00	158.00	110.00	128.00	325.00	110.00
2005/06	200.00	189.00	210.00	102.00	125.00	295.00	90.00
2006/07	260.00	300.00	227.00	111.00	219.00	219.00	121.00
2007/08	300.00	345.00	306.00	154.00	315.00	315.00	129.00
Total	1372.00	1404.00	1182.00	690.00	1030.00	2114.00	692.00
Average	228.67	234.00	197.00	115.00	171.67	352.33	115.33

Grand Total = 1372+ 1404 + 1182 + 690 + 1030 + 2114 + 692

= 8484

Correlation Factor (C.F) = $\frac{T^2}{N} = \frac{(8484)2}{42} = 1713768$

Total Sum of Squares (TSS) = $x_1^2 + x_2^2 + x_3^2 + \ldots + x_{42}^2 - C.F.$

$= 192^2 + 190^2 + 150^2 + \ldots + 129^2 - 1713768$

$= 2135926 - 1713768$

$= 422158$

Sum of Square Between Sample (SSB)

$$= \frac{\phi x_1^2}{x_1} + \frac{\phi x_2^2}{x_2} + \frac{\phi_3^2}{x_3} + ... + \frac{\phi x_7^2}{x_7} - C.F$$

$$= \frac{(1372)2}{6} + \frac{(1404)2}{6} + \frac{(1182)2}{6} + ... + \frac{(692)2}{6} - 1713768$$

$= 1955930.67 - 1713768$

$= 242162.67$

Sum of Square With in sample (SSW)

$= TSS - SSB$

$= 422158 - 242162.67$

$= 179995.33$

APPENDIX D

List of Insurance Companies

Life Insurance Company	Non-Life Insurance Company
1.Rastriya Beema Samsthan bema@wlink.com.np www.beema.com.np	1. Nepal Insurance Company Ltd. nic@wlink.com.np www.nepalinsurance.com
2. National Life Insurance Company Ltd. nlgi@mail.com.np	2. The Oriental Insurance Company Ltd. oriental@wlink.com.np www.orientalinsurance.com.np
3. Nepal Life insurance Company ltd. nlic@mos.com.np www.nlic.com.np	3. National Insurance Company Ltd. info@nationalinsurancenepal.com www.nationalinsurancenepal.com
4. American Life Insurance Company Ltd. American.life@alico.com.np www.alico.com.np	4. Himalayan General Insurance Company Ltd. Ktm@hgi.com.np www.hgi.com.np
5. Life Insurance Corporation (Nepal) Ltd. lic@mos.com.np	5. United Insurance Company (Nepal) Ltd. uic@mail.com.np www.unitedinsurance.com.np
6. Asian Life Insurance Company Ltd. asianlife@asianlife.com.np www.asianlife.com.np	6. Premier Insurance Company Ltd. premier@picl.com.np www.premier-insurance.com.np
7. Gurans Life Insurance Company Ltd. guranslife@wlink.com.np www.guranslife.com	7. Everest Insurance Company Ltd. evinsco@mos.com.np www.everestinsurance.com
8. Prime Life insurance Company Ltd. info@primelifenepal.com www.primelifenepal.com	8. NECO Insurance Ltd. www.necoins.com.np
9. Surya Life Insurance Company Ltd. info@suryalife.com.np www.suryalife.com	9. Sagarmatha Insurance Company Ltd. www.sagarmathainsurance.com.np
	10. Alliance Insurance Company Ltd. Aic_ktm@ntc.net.np www.allianceinsurance.com.np
	11. NB Insurance Company Ltd. www.nbinsurance.com.np
	12. Prudential Insurance Company Ltd. www.prudential.com.np
	13. Shikhar Insurance Company Ltd. shikharins@mos.com.np www.shikharinsurance.com
	14. Lumbini General Insurance Company Ltd. www.lumbinigeneralinsurance.com
	15. NLG Insurance Company Ltd.
	16. Siddartha Insurance Ltd.

Profiles

Profiles of the Selected Insurance Companies

Himalayan General Insurance Company

Himalayan General Insurance Company Limited was established in 1988 under the company Act 1964 with an objective of undertaking non-life and re-insurance business in the country and aboard. The company had obtained permission to commence insurance business from Insurance Board under insurance Act 1992 and stated its business from November 1993. HGIC worked with Swire Blanch Asia Ltd., Singapore, through a technical service agreement for the initial five year in order to arrange reinsurance with the world's best reinsures. HGIC listed on stock exchange on 1994 A.D. The shareholding pattern of the company is 60% shares owned by promoters and 40% by general public. At the end of fiscal year 2007/08, paid up capital is Rs.30 millions.

Premier Insurance Co. (Nepal) Ltd.

Premier Insurance Company (Nepal) Limited was established under the company Act 1964 in 1992 (2048 B.S). The major objectives of the company are to carry out life and non-life insurance and re-insurance business in the country and abroad. PICL's success in the insurance and reinsurance business owes itself to the determination of its promoters to succeed. The shareholding pattern of the company is 60 percent by the promoters and 40 percent by the general public. It was listed on stock exchange in 1995 A.D (2052 B.S). The company has authorized capital Rs.100000000 and paid up capital Rs.63000000. As part of the company's effort to serve people countrywide. It has established four regional offices such as Birgunj, Narayangath, Pokhara and Biratnagar.

Everest Insurance Company Limited

Everest Insurance Company Limited was established in 1992 under the company Act 1964. The major objective of the company is to carry out life insurance and non-life insurance business in the country. The company is yet to get permission to operate life insurance business from insurance board and has operation only non-life insurance business. It was listed on the Nepal stock exchange in the year 1995A.D. the shareholders of EICL are 60 percent from promoters and 40 percent from general public. The company has authorized

capital Rs.100000000 and paid-up capital Rs.101250000.

United Insurance Company (Nepal) Limited.

United Insurance Company (Nepal) Limited has started its operation from December 1, 1993 (Mangsir 16, 2050 B.S) with an objective of providing non-life insurance services in the field of fire, marine, vehicle and miscellaneous insurance in the country and abroad. It was listed in the Nepal stock exchange in the year 1994 A.D (2051/04/17 B.S.). United Insurance Company (Nepal) Limited is an ISO 9001:2000 certified insurance company. The shareholding pattern of the company is 51% form industrial promoters, 40% from general public and 9% from other sector. The company has authorized capital Rs.150000000 and paid-up capital Rs.72000000 at the end of financial year 2007/08.

Sagarmatha Insurance Company Limited

Sagarmatha Insurance Company Limited incorporated in 1996 has been promoted by the prominent entrepreneurs and leading industrial Groups – Salt Trading Corporation, Jyoti Group, MC Group, National Finance Co. Ltd; Nepal Construction and Engineering Corporation and other promising entrepreneurs. SICL has first Joint Venture Company in Nepal in General Insurance with Ceylinco Insurance Co. Ltd; of Sri Lanka has been awarded "CNCI Achievers Industrial Excellence – 2002" Gold Medal by The Ceylon National Chamber of Industries among the best industry in the SAARC region. The shareholders of the company are 60% from "A" group promoters, 20% form foreign insurance company and 20% form general public. The company has authorized capital Rs.200000000 and paid-up capital Rs.102102000 at the end of financial year 2007/08.

NECO Insurance Company Limited

NECO Insurance Company was incorporated as a Public Limited Company on 16th December 1994 A.D under the company Act 1964, and Insurance Act 1993. The company started its General Insurance business on 30th May 1996 when the company was provided the License by Beema Samiti (Insurance Board) to transact all types of Non-Life (General) Insurance in Nepal. The major objective of the company is to operate insurance business throughout the country. The company has operated non-life insurance business and medical

insurance business in the country. The largest bank Rastriya Banijya Bank has invested 20% and company promoters, fund management company limited, NECO Avi Pvt. Ltd., and general public have invested 21% , 10% , 9% , 40% respectively in its capital. It was listed on the Nepal stock exchange in the year 1998 A.D (2054/12/17 B.S).The company has authorized capital Rs.200000000 and paid-up capital Rs.55000000 at the end of F.Y. 2007/08.

Alliance Insurance Company Limited

Alliance Insurance Company Limited was incorporated 1996 A.D (2053 B.S) with an objective of providing general insurance services in the field of fire, marine, vehicle and miscellaneous insurance in the country. It was listed in the Nepal stock exchange in the year 2000 A.D (2056/10/21 B.S). The shareholders of the company is 51% form company promoters, 15% form employee provident fund, 4% from people's finance Co. Ltd and 40% from public sectors. The company has authorized capital Rs.150000000 and paid-up capital Rs.59951700 at the end of financial year 2007/08.