CHAPTER I
INTRODUCTION

1.1   BACKGROUND OF THE STUDY

For the development of country, economic development is one of the major sectors. For economic development, financial sector play foremost role, where they collect idle funds from customer by paying some percent interest & invest it into large industries & other business sector by taking some 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 technological sector should also 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 establish the desired number of financial institutions. The main objective of such financial institution is to earn profit by proper utilization of funds and resources. There are different types of financial institutions established with the capital of general public in form of equity share capital. Among these, insurance company is the one, which is purposed for the study of their dividend policy and practices.

Human being always wants his safety and security. But his life is surrounded by risk and uncertainties because of modern mechanical complexities and its development. Thus, the concept of insurance was developed to avoid and reduce those risk 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 elimination 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'.[1] Thus insurance safeguards the interest of people form 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 later 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 losses. Like the commercial banks, insurance companies are also responsible and contribute for the economic growth to the nation. They attract the people form door to door to insure against the possible loss and invest the fund to the 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 non-developed, it is very important to mobilize the fund in different investment sectors. Though the history of insurance company is not very old in Nepal but they have come a long way to reach the present position. The concept of insurance 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 Guthi was used to build buildings and repairing temples and so on. But now they are converted into commercial phenomenon.

The history of modern insurance company began form 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. and is same till date. From its establishment

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[1]   Mishra M. N. (1996). *Principles and Practices. New Delhi: S. Chand and Co. Ltd.*

the company carried out the 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 changed 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, there has been some progress in the establishment of insurance companies in Nepal. At present 17 listed insurance companies are operating in Nepal. Among these insurance companies, some of them operate in both life and non-life(general) sector. They operate as per the norms and values of Insurance act 1992, and Insurance Rules 1993. 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).[2]

1.2 INTRODUCTION OF THE STUDY

Development of a nation depends on the development of its economic growth. Insurance business in modern economic age play vital role in different sector 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 several people 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 public with the hope of capital gain and dividend.

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[2]   Bhandari, D. R. *Banking and Insurance: Principle and Practices*. Kathmandu: Aayush Publication. pp. 355-362.

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 earning 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 earning retained in the firm and affect the total amount of internal financing. The dividend payout ratio obviously depends on the way earnings are measured for ease of exposition; We use net earning but assume that these earnings can form true economic earnings. In practice net earning may not conform and may not be appropriate measure of the ability of firm to pay dividends.[3]

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 of dividend 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.

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[3] Vanhorn, J. C. (2000). *Financial Management and Policy*. New Delhi: Prentice Hall of India Pvt. Ltd. p. 305.

- Payment procedure
- Stock repurchase and stock splits[4]

All the aspects and questions related to the payment of dividend are contained in a dividend policy. Retention of profit increases their 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)[5] on expected profit like non receiving profits on sale of fixed assets or on redemption of long tem liabilities that 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 the Nepalese companies are paying stock dividend, which has been a growing practice in the current scenario. Cash dividend is the most popular and widely used form 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. For the purpose of the study we are considering Premier Insurance Company, Everest Insurance Company, United Insurance Company, Himalayan General Insurance Company, and Sagarmatha Insurance Company.

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[4]   Pradhan, S. (1992). *Basics of Financial Management.* Kathmandu: Educational Enterprises (P) Ltd. p. 376.

[5]   Upadhyaya, K. M. (1985). *Financial Management*. Panjab: Kalyani Publishers.

1.3. PROFILES OF THE SELECTED INSURANCE COMPANIES

1.3.1   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. The shareholding pattern of the company is bifurcated as 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 of Rs.100 million, issued capital of Rs.65million, paid up capital of Rs.45 million, no. of shareholders are 8476 and market capitalization is Rs.86.6 million at the end of fiscal year 2006/07.[6]

1.3.2   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 obtained permission to commence insurance business from insurance board under insurance Act 1992 and stated its business from November 1993. HGIC got listed on stock exchange on 1994 A.D. The shareholding pattern of the company is bifurcated as 60% shares owned by promoters and 40% by general public. At the end of fiscal year 2006/07, authorized capital, issued capital and paid up capital were Rs.16 million, Rs.6.5 million and Rs.3 million respectively, the market capitalization is Rs.77 million and the number of shareholders are 1875.[7]

1.3.3 Sagarmatha Insurance Company Limited

Sagarmatha Insurance Company Limited was incorporated in 1995 A.D (2051 B.S) with an objective of providing non-life 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

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6   Premier Insurance Co. (Nepal) Ltd., *Annual Report 2006/07*

7   Himalayan General Insurance Company, Annual Report *2006/07*

year 2001 A.D (2057/02/11 B.S). 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 of Rs.120million, issued capital of Rs.65 million, and paid-up capital of Rs.51million, net profit of Rs.10404690, market capitalization is Rs.89.50 million and the no. of shareholders are 8657 at the end of the financial year 2006/07.[8]

1.3.4   United Insurance Company (Nepal) Limited.

United Insurance Company (Nepal) Limited was established in 1992 A.D (2049B.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. 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.100 million, issued capital Rs.72 million, and paid-up capital Rs.72 million, net profit Rs.6384836, market capitalization is Rs.92.8 million and the no. of shareholders are 6895 at the end of financial year 2006/07[9]

1.3.5   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 recently got the permission to operate in life insurance business from insurance board and had operation only in non-life insurance business earlier. It was listed on the Nepal stock exchange in the year 1995A.D. The shareholders of EIC are 60 percent from promoters and 40 percent from general public. The company has authorized capital Rs.100million, issued capital Rs.30 million and paid-up capital Rs.30 million, net profit Rs.18.5 million (approx) and the market capitalization is

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8   Sagarmatha Insurance Company Limited *Annual Report 2006/07*

9   United Insurance Co. (Nepal) Limited., *Annual Report 2006/07*

Rs.256 million at the end of fiscal year 2006/07.[10]

1.4 STATEMENT OF PROBLEM

Whether the insurance companies of Nepal have satisfactory result about dividend decision or not depends partly on 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 isn't any proper relationship between dividend and quoted market price of share. Distribution of the return in terms of dividend of Insurance companies does not seem to reflect in the market price of the shares. This fact inspired the researcher to study the factors that affect the dividend decision and evaluation of shares. However the dividend is 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.

- Do the Insurance companies paying larger dividends have good financial position?
- Whether the insurance companies have uniformity in dividend distribution policy?
- Is their any affect of dividend decision on the market price of the shares in different insurance companies?
- Whether there exists 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?
- What kind of dividend policy do Nepalese insurance companies follow?

1.5 OBJECTIVES OF THE STUDY

The main objective of this study is to seek the answers for the above questions. The answers for the above questions can be found by analyzing the dividend policy practices followed by the companies. Therefore, the major objective of this study is to highlight the

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10   Everest Insurance Co. Ltd., *Annual Report 2006/07*

dividend policies adopted by the insurance companies and its practice in Nepal. The major objectives of the study are as follows.

- To find 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?
- To analyze the impact of dividend on share or stock price.
- To analyze the factors affecting dividend policy of insurance companies.
- To provide the valuable suggestion and possible guidelines to over come various gaps based on the findings of the analysis.

1.6   SIGNIFICANCE OF THE STUDY

The history of insurance companies 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 this the number of insurance companies got established. Currently there are 17 listed insurance companies functioning in Nepal. As insurance business is growing in Nepal, People are attracted to invest in such company's shares for the purpose of getting greater returns. Dividend decision is important instrument that helps to decide the investor whether to invest in 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 trial and error method. So the present study will make the shareholders and investors aware of dividend practices of the insurance companies. Therefore considering all these facts, this attempt of analyzing dividend policy and practices of Insurance companies of Nepal provide some guidelines to investors, insurance companies, policy maker and future researcher as well. Apart from it, this study will be of interest to the researchers and academicians.

1.7   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 the extreme depth. Therefore the limitations of this study are as follows:

- Among the various insurance companies, only five insurance companies are selected as sample for the study because of time, resource and money factors. The names of insurance companies are: PIC, UIC, HGIC, ECO and SIC.
- 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 and the other subject matter is left untouched.
- This study covers the recent period of six years 2001/02 to 2006/2007.
- 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 finding of analysis.

1.8   ORGANIZATION TO THE STUDY

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

The first chapter deals with the introduction that includes background of the study, introduction of the study, profiles of the selected insurance companies, statement of problem, objective of study, significance of the study and limitation of the study.

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

Third chapter 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.

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

Fifth chapter is concerned with summary, conclusions and recommendations.
Bibliography and appendixes are 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 and risk to their 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 ploughing 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, determine 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 dividends 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 earning in the firm and affects the total amount of internal financing.[11]

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

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[11]   Gautam, Rishi Raj, 'Dividend Policy', Hand out, Distributed by Asmita Book Store, Kathmandu.

think that there would be a tendency for corporation to increases 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."[12]

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. [13]

What and how much it is desirable to pay dividend is always a controversial topic, because shareholders expect higher dividend from corporation. However corporations ensure towards setting aside funds for maximizing the overall shareholder's wealth.[14]

Therefore, "Dividend Policy is a wise policy to maintain a balance between shareholders interest with that of the corporation growth from internally generated fund."[15] The fund that could not be used up due to the 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 fits the well being of the shareholders. That well being can be partially measured by the dividends received but a more accurate measurement is the market value of stock."[16]

The dividend policy adopted by the firm should be such that it strikes a proper balance between the financing decision and wealth maximization decision. There is a negative relation between retained earnings and cash dividend. When the firm retains the earnings to provide the 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 share. 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.

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[12]   Smith Dan Troop, Relief from double Taxation of 'Dividend Income' (Haward Business Revise Boston, Jan-Feb 1997) pp 90-91

[13]   Gautam, Rishi Raj, 'Dividend Policy', Hands out, Distribution by Asmita Book Store, Kathmandu.

[14]   Ibid

[15]   Shrestha, Manohar Krshna, *Financial management Theory and Practices* pp 640-41

[16]   William H. Dean, *Finance* (the Dryden Press Library of congress 1973) P-1

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 dividends. 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. "[17] 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, many business organizations pay dividends in the form of cash. For the declaration of cash dividends, companies should have enough cash in its bank account. 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 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.[18]

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 pays stock dividend as a replacement for a supplement to the payment of cash dividend."[19] 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."[20] 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

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[17]   Shrestha Manohar Krishna, *Financial Management (Theory and Practice)*, curriculum Development Centre, TU 1980, p-670

[18]   P.G. Hasting. *The management of Business Finance*, Van Nostrand Co, Irc, New York. 1996, P-730

[19]   Lawrence J. Gitman, *Principles of Managerial Finance*, 7th Edition (Hoper Collin's College) P-70

[20]   Pandey, I.M, *Finnancial Management*, Vikas Publicing House Pvt. Ltd, new Delhi, 8th Edition, 1999 P-   778

company in order to increase 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."[21]

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 been suffering form cash problem but has earned profit. Scrip is a form of promissory note promising to pay the amount to the holder at specified later date. Under this type of dividend, company issues and distributes to the 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 amount left after all acceptable investment

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[21]   Joseph F. Bardley, *Administrative Financial Management*. Hinsdale: The Dryden Press, 1974) P-284

opportunities have been undertaken.[22] It is residual since shareholders get dividends only when there exists balance of earnings after paying fixed Obligations and investing in profitable sector or in expansion. If the firm has retained earning left over after financing all acceptable investment opportunities, these earnings then will be distributed to stockholders in the form of cash dividends. If not there will be no cash dividends. Due to flotation costs and tax saving of shareholders, it assumes that the internally generated funds (R.E) are comparatively cheaper than the funds obtained form external sources i.e. through 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 investments have been financed. According to this concept, dividend policy is totally passive in nature. 'When we treat dividend policy as a strict financing decision, the payment of cash dividend is a passive residual."[23]

2.3.2   Stability of Dividends

Dividend is considered as a desirable policy by the management of the firm regularly even though the amount of dividend fluctuates form year to year." By stability, we mean maintaining a position in relation to a dividend trend line preferably one that is upwards sloping."[24] 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 with earnings.[25] Shareholders generally prefer stability or regularity of dividends because all other things being 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.

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[22]   Lawrance J. Gitman, *Principal of Managerial Finance*, Harper collins college Publishers, 7th e4dition P-   537

[23]   James C. Van Horn, *Financial Management and Policy*, 9th edition prentice hall of India Pvt. Ltd, New   Delhi,   1981,   P-306

[24]   I bid P-351

[25]   I.M Pandey, *Financial Management*, Vikas Publicing House Pvt. Ltd., New Delhi, 8th edition.

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 incur 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 focus 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 depends on a number of factors. Such affecting factors are as follows: [26]

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[26]   J. Fred Weston and Thomas E. Copeland *Managerial Finance*. The Dryden Press, Chicago, 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 be declared form 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 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, the company declares cash dividend at that position. 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, the company has to pay regular interest as well as the repayment of the 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 the 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 the shareholders for the retention of earnings. It needs to only point to the restriction.

2.4.5 Rate of asset Expansion

If the firm is rapidly growing, they need more funds for financing the expansion of the assets. In this position, it is necessary to retain the firm's whole earnings in the business to fulfill its need of funds as it won't be able to pay the dividend to its share holders.

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 earning 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 pay a higher percentage of its earnings, than a firm with fluctuating earnings. The unstable firm is not certain about the realization of 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 form capital markets greater likely it is to pay higher dividends. On the contrary, the firms 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 corporation expands 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 increase the risk (financial leverage) to the present owners of the company. Reliance on internal financing in order to maintain control 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 tax payers 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 while receiving the dividend. Companies owned by small investors tend toward higher dividend payouts; some times there may be a conflict between stockholders in high income tax brackets and stockholders 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. Which are explained as under:[27]

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 its own shares. This section states that no company shall purchase its own shares or supply loan against the security of its own shares.[28]

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[27] Endi Consultants Research Group, *Nepal Company Act 1997, Nepal for Profitable investment*, Shree star printing press, Kathmandu, 1997, P-43

[28] 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.[29]

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.[30]

- 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 the appreciation in the price of stock. Similarly this provision

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[29] Ibid, P-94

[30] Ibid, P-94 -95

is essential for the correction of debt dominated capital structure. The reason for this kind of provision is not known yet.

2.6 REVIEW OF THE JOURNALS AND BOOKS

2.6.1 Walter's Study

Walter studied 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.[31] 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 affect 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 the dividend policy that 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 it's cost of capital (k) are constant.
- All earnings are either distributed as dividend or reinvested internally;
- There is no change in values of earnings per share (E) and 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.

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[31] Walter, J. E. 'Dividend Policies and Common Stock Prices', *Journal of Financial, American Finance Association*. March 1966. pp. 26-41.

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 policy 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 prices variation. In other words, dividend payout does not affect the value of shares. Either profits are retained or distributed, as dividend makes no difference on the value of shares. This kind of firm is known as normal firms.

Declining Firms (r < K)

This type of firm has higher rate of cost of capital rather than internal rate of return. The relationship between dividends and stock prices is positive i.e., increase in dividend per share yield increase in stock prices. This type of firm is referred to as declining firms that does not have any profitable investment opportunities. He 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 firm's 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 firm is financed by retained earnings only. It can be applicable to only those firms which have financed all 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 increase and decrease of investment and cost of capital (k) changes with risk.

2.6.2 Gordon's Study

Myron J. Gordon conducted another study.[32] His study supported and concluded that dividend policy of firm affects its value. Unlike Walter's model he argues that DP affects value of shares even in a situation in which the return on investment (k) is equal to the capitalization rate (ke) that is (k = ke). It is assumed that investor has 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 earnings 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 =

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[32] Grodon, Myron J. 'The Investment Financing and Valuation of Corporations'. Home wood III Richard D, Irwin, 1992

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 earning 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 declining firm.

2.6.3 Modigiliani and Miller's Study

Modigiliani 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 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 (peer 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, issuing a new share is the other alternative. Say n is the number of newly issued equity share at the end of year 1 at price of P_1 then,

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

Where,

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

 n   = 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,

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

or, $ nP_1 = I - E + nD_1$

Where,

nP1	=	The amount obtained form the sale of shares
I	=	The total amount requirement of capital budget.
E	=	Earning 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 form equation of step (4) into equation of step (3) we derive equation of step (5) as,

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

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

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

Step 6

There isn't 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 Study[33]

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.

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

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

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

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

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[33]   Lintner Jhon. 'Distribution of Incomes of Corporations Among dividends, Retained Earning' and taxes *American Economic review*, (May 1956) pp 97-113

desired   level of dividends where b<1.

His major findings on the dividend policy were as follows:

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

2.6.5 Chawla and Srinivasan's Study[34]

Chawala and Srinivasan's 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 objective of their study were,

- To estimate a model to explain 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"[35] 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

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[34]   Deepak Chawla and G. Srinivasan (1987), Impact of 'Dividend and Retention on Share Price' an Econometric study Decision, Vol 14 No, pp 137 - 140

[35]   Ibid P - 138

P/E $\qquad$ = $\qquad$ Deviation from the sample average of price earning ratio

T $\qquad$ = $\qquad$ Subscript for Time.

They used two stages least square technique for estimated and in case of chemical industry they found the estimated co-efficient had the correct sign and coefficient of determination of all the equations were 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 were negative in both 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 coefficient of dividend was significant at one percent level in both years. Whereas coefficient of retained earnings was significant at ten percent level in 1969 and one percent level in 1973.

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[36]

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 data were collected form 86 electric utility firms included on the COMPUSTAT utility date tape and 39 firms in the electronics and electronic component industries as listed on the COMPUSTAT industrial date tape. They tested two regression models for the utilities industries, which are as under.

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[36] James C. Vorne and John G. Mc. Donald, 'Dividend Policy and New Equity Financing, Journal of Finance, Vol 96, May 1971 pp 507-519

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 in 1968 and dividend by
		earning in 1968
Lev	=	Financial risk, measured by interest changes dividend by the difference between operating revenues and operating expanses.
u	=	Error term s

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 groups A through D.

It is notable that they had grouped the firms in five categories A,B,C,D and E by NIR. For each firm the value of dummy variables representing it's NIR group is one and the value 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 of 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 ARTICLES IN NEPALESE CONTEXT

There are very few articles published about dividend practices in Nepal, two major studies are reviewed as follows:

2.7.1 Shrestha's Study[37]

Dr. Manohar Krishna Shrestha published 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

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[37] Shrestha Dr. Manohar Krishna (1992) , 'Shareholders Democracy and Annual Generial Meeting' Feedback and Portfolio Analysis, Nepal; Publication, Kathmandu

that higher return by way of dividend is just a natural economic consequence 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 retaining 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 about the payment of dividend. At the close of paper, Shrestha opines that the bank is trying its best to satisfy both the shareholders and employees.

2.7.2 Pradhan's Study[38]

Radhe Shyam Pradhan 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 behaviour:

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[38] Pradhan Radhe S. Stock Market Behavior in a Small Capital market: a Case of Nepal. hte Neoa;ese management Review. New Delhi: vikash Publishing House, Vol ix No, 1 pp 23-49

- Higher 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 par 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.
- Earning assets turnover and interest coverage are more variable for the stock paying higher dividends.

2.8 REVIEW OF UNPUBLISHED MASTER'S THESIS

There are a few Master's Degree studies in Nepal which have conducted 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:

2.8.1 Hari Ram Aryal's Study[39]

The study of "Dividend practices of Joint Venture Banks" was carried about by Hari Ram Aryal in 1997, which has made comparative study of dividend policy between NADIL and NGDBL. He analyzed the data of these respective banks from fiscal year 1987/88 to 1994/95. The main objective of this study can be stated as follows:

- To highlight dividend practices of banks
- To analysis the relationship of dividend with various important variables such as earning per share, net profits, net worth and stock price.
- To provide a workable suggestion and possible guideline to over come various issue and gaps based on the findings of the analysis.

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[39] Aryal H.R. 'Dividend paractices of Joint Venture Banks', Unpublished Master's Degree Thesis, TU, Kirtipur, 1997

In this study, he analyzed the factors using the statistical tools and financial tools and concluded that,

- The relationship between both DPS with EPS , NP, NW and stock prices are positive
- A change in DPS affects the market price per share
- There isn't any uniform dividend policy of both the banks.

But this study has following limitation:

Number of samples selected for the study are small i.e. only two joint venture banks are selected as sample, that's why it does not represent the exact practice of dividend policy in commercial banks.

2.8.2 Sadaker Timilsina's Study[40]

A study is carried out by Sadaker Timilsina on "Dividend and Stock prices" with data of 16 companies for five years from 1990 to 1994. The main objectives of his study were as follows.

- To test the relationship between dividend per share and stock prices.
- to determine the impact of dividend policy on stock prices
- To identify whether it is possible to increase the market value of the stock by changing dividend policy or payout ratio.

The findings drawn by the study were as follows:

- The relationship between dividend per share and stock prices is positive in the sample companies.
- Dividend per share affects the share prices.
- Change in dividend policy or DPS might help to increase the market prices of shares.

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[40]   Sadaker Timilsina,' Dividend and Stock Prices, An Unpublished Master's Degree Thesis, Central department of Management T.U. 1997

- The relationship between stock prices and lagged carryings price ratio is negative.
- The relationship between stock prices and retained earning per share is not prominent.

2.8.3 Rishi Raj Gautam's Study[41]

Rishi Raj Gautam has also conducted a research work on comparative study on dividend policy of Nepal Grindlay's Bank Ltd., Nepal Indoswez bank Ltd., and NABIL Bank from 1992 through 1997. The main objectives of his study are:

- To identify the type of dividend followed by banks.
- To examine the impact of dividend on stock price.
- To identify the relationship between DPS and other financial indicator.
- To know the uniformity among DPS, EPS and DPR of the sample banks.

Following are the conclusions of his study:
- No clearly defined dividend policy is found through out the sample banks.
- The market price of the shares does not seem to be more or less dependent on EPS or DPS.
- No significant relationship between DPS and EPS and other financial indicators can be seen.
- No uniformity in EPS but prominent difference in DPS and DPS.

2.8.4 Nabaraj Adhikari's Study[42]

Nabaraj Adhikari has conducted a study on "Corporate dividend practices in Nepal" in 1999 using secondary data covering a period of 7 years. The total observation of 47 institutions in financial sector and 30 in non-financial sectors are covered in his study. The

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[41]   Gautam, Rishi Raj, 'Dividend Policy: Comparative study on dividend Policy of Grindlays Band Ltd, Nepal Indosuez bank Ltd. and Nepal Arab bank Ltd. An unpublished Naster's Thesis, Shanker Dev Campus 1998

[42]   Adhikari Navaraj, 'Corporate Dividend Practice in Nepal', Unpublished Mater's Degree thesis. T.U. Kirtipur 1999

major objectives of the study are as follows:

- To analyze the properties of portfolios formed on dividends.
- To examine the relationship between dividend & stock prices.
- To survey the opinions of financial executives or corporate dividend practices.

The major findings of his study are as follows:

- There are differences in financial positions of high dividend paying and low dividend paying companies.
- Market price of the share is affected by the dividend.
- Financial executives of Nepal reject dividend as residual decision in Nepalese companies.
- Other things remaining the same, financial position of high dividend paying companies is comparatively better than that of low dividend paying companies.

2.8.5 Mr. Charchit Shrestha Study[44]

Mr. Shrestha has conducted a study on " An overview of financial and insurance companies in Nepal" in 2005. He has taken the data of 8 years for the study. In his study he stated the following objectives:

-) To find out the current trend of the dividend practices in Nepal
-) To determine the current factors that affects the dividend
-) To analyze the relationship between the dividend and the market price of a share.
-) To find out the current market scenario of the dividend practices and the current stock market fluctuation in the insurance company's stock.

The findings drawn by the study were as follows:

- No clearly defined dividend policy is found followed by the sample banks.
- The market price of the shares does not seem to be more or less dependent on the EPS or DPS.

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- Dividend per share affects the share prices.
- Change in dividend policy or DPS might help to increase the market prices of shares.

2.8.5 Mr. Santosh Pykurel Study[44]

Mr. Pykurel has conducted the research study on " Financial analysis of insurance companies in Nepal", in 2006. He has taken 5 years of secondary data to analyze his topic. According to him the dividend distributed by most of the companies are fluctuating but some of them are also paying at a constant rate among the sample of the companies he took for the study.

Through his study he concluded that there doesn't exist any uniformity in the dividend policy adopted by the insurance companies in Nepal. In his study he also analyzed the trend of the stock market in relation with the insurance companies. The behavior and the subsequent effect of the companies was also taken into consideration.

CHAPTER III

RESEARCH METHODOLOGY

3.1 INTORDUCTION

Research is a careful search or inquiry into any subject matter, which is an attempt to discover 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.[43] 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 17 listed insurance companies in Nepal, the study covers only five insurance companies as sample selection.

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

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[43]   Kothari C.R. , *Research methodology, Methods and Techniques*, Willey Eastern Limited, edition, New Delhi 1990, P-10

3.2 RESEARCH DESIGN

Research design is the conceptual structure within which research is conducted. Before making a research, the researcher needs to plan which help as a path in order to achieving goal. Research design helps researcher to enable him to keep track of his action and to know whether he was 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.[44] 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 are collected from the year 2001/02 to 2006/07.

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 detail information from each member of population. Rather than collecting detail information from each number, the small portion is chosen as representation of the population is called the sample. The procedure of selection of sample from the population is known as the sampling method.

Now, that the government has adopted liberal economic policy, a number of insurance companies are established after restoration of democracy. There are seventeen listed insurance companies providing their service in the life and non-life sector.

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 of insurance companies from

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[44]   Kerlinger Feed N. *Foundation of behavioral Research*, New Delhi, Sujeet Publication P-300

population. The population of the listed insurance companies is as follows:

S.No.	Companies Name	Stock Symbol
1	Nepal Insurance Co.Ltd.	NICL
2	Rastriya Beema Sansthan	RBS
3	National LifeInsu. Co.Ltd.	NLICL
4	Himalayan Gen.Insu. Co.Ltd.	HGI
5	United Insurance Co.(Nepal)Ltd.	UIC
6	Everest Insurance Co. Ltd.	EIC
7	Premier Insurance co. Ltd.	PIC
8	Neco Insurance Co.	NIL
9	Alliance Insurance Company Limited	AIC
10	Sagarmatha Insurance Co.Ltd	SIC
11	NB Insurance Co. Ltd.	NBIL
12	Nepal Life Insurance Co. Ltd.	NLIC
13	Life Insurance Co. Nepal	LICN
14	Prudential Insurance Co.	PICL
15	Lumbini General Insurance	LGIL
16	Shikhar Insurance Co. Ltd.	SICL
17	Siddhartha Insurance Limited	SIL

Out of the above seventeen listed insurance companies in Nepal Stock Exchange, five insurance companies are selected randomly for the study. The sample selections for this study are:

- Premier Insurance Company Ltd.
- Himalayan General Insurance Company Ltd.
- Sagarmatha Insurance Company Ltd.
- United Insurance Company Nepal Ltd.
- Everest Insurance Company Ltd.

3.4 NATURE AND SOURCES OF DATA:

This study is mainly based on secondary date. Secondary data are used to analyze the dividend policy and practices of insurance companies. The data of the different financial

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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 form followings:

- Annual reports
- Publications of the concerned companies
- Nepal Stock Exchange Limited
- http. www.nepalstock.com
- Newspaper & Magazines
- Security Board Nepal

3.5 METHOD OF ANALYSIS

For the propose 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, standard error and t-test decision are the analytical tools 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 commo9n share outstanding. It shows the portion of

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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 could 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 he MPPS. It is calculated by dividing dividend per share by market price per share.

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

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 banks. This ratio is calculated by dividing the market value per share by the book value per share.

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

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 is the sum of all the observations divided by the total number of observations.[45] In such a case of all items are equally important.

$$\text{Mean (x)} \quad = \quad \frac{\text{Sum of observation } (|\phi x^2)}{\text{No. of observation (n)}}$$

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.[46] The greater the amount of dispersion greater 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:

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

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

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[45]   Gupta, S.C. *Fundamentals of Statistics*, Himalayan Publishing House, 5th edition, pp-236-238

[46]   Ibid p-38.

deviation. The coefficient of dispersion based on standard deviation multiplies 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.[47]

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

3.5.2.4 Coefficient of Correlation (r)

The correlation is a statistical tool, which studies the relationship between two variables and correlation analysis involves various methods and techniques used for studying and measuring the extent of the relationship between the two variables. Two variables are said to be correlated if the change in one variable results in a corresponding change in the other variable.[48] 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 the same direction, then positive correlation exists. Where as when 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:

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

[47]   Ibid. P-415

[48]   Ibid. P,510-511

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 total variation dependent variable explained by independent variables. In other words, the coefficient of determination gives the ratio of the explained variance to the total variation. Its value can nave ranging 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. The theory of regression analysis was first developed by Sir F. Galton. 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 (independent). The unknown (dependent) variable whose value is known is called 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.[49] 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 of given change in the value of x.

The regression equation of y on x be

y = a + bx

Where,

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[49] Bajracharya B.C. *Business Statistics and Mathematics*, M.K. Publisher & distributors, edition 2056, P 276-277

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 2001/02 to 2006/07. 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,

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 of 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:

$\phi y \quad = \quad Na + b\,\phi x \qquad ... \text{(i)}$

$\phi xy \quad = \quad a\,\phi x + b\,\phi x^2 \quad ... \text{(ii)}$

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) is an old measure of test. The reliability of an observed value of correlation coefficient in so for as depends upon the conditions of random sampling.

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

3.5.2.8 Standard error of Estimates (SEE)

Standard error of estimates is used for measuring the reliability of the estimating equation. The standard error measures the variability of the observed value with the predicted values on the regression time. If SEE happens to be zero, there is no correlation will be perfect.

3.5.2.9 Multiple regression Analysis

Multiple regressions is defined as the statistical device which is used to estimate (or predict) the value of tone dependent variable when the values of two or more independent variables are known or given. In multiple regression analysis, two or more independent variables are used to predict the value of dependent variables. It is a statistical technique for investigation the relationship between one dependent variable and a set of two or more independent variables. [50] In this study, market price of the stock is influenced by several

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[50] Shrestha Dr. Sunity and Silwal Dhurba Prasad, 'Statistical Methods in Management'. Edition 2057 , P -348

factors like earning made by firm, dividend distributed and net worth etc. Thus, multiple regression models of MPS depend upon EPS, DPS and NW which is formulated as:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3$$

Where,

Y	= market price per share
a	= Regression constant
b_1, b_2, b_3	= Regression coefficient of the variables
x_1	= Earning per share
x_2	= Dividend per share
x_3	= Net worth

3.5.2.10 T – Test

T- Test used to analyze the difference between two sample means. If sample size is less than 30, t –test is used to determine the re4liaility. For applying t-test in the context of small sample the t value is calculated first off all and compared with the table value of 't' at certain level of significance for given degree of freedom. If the calculated value of 't' exceeds than the table value (say 0.05), the difference is significant at 5% level but if 't' value is less than the concerning table value of 't' the difference is not considered as significant. In this study, beta coefficient is testing in 5% level of significance.

2.5.2.11 Test of Hypothesis

A hypothesis is logically expressed in the forms of testable statements as can be understood by viewing the same in chapter IV under this study. 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.

2.5.2.11 Analysi8s 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 significant of differences between more than two sample means at once and same time. From this technique, we will be able to make inferences about whether our samples are drawn from populations having the same mean or not. 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 chapter is the heart of this study that is fully related to analysis and interprets various outcomes. Thus in this context, this section analyzes the relevant secondary data and information, regarding dividend policy of the selected insurance companies which are presented along with the comparisons. This analysis includes financial and statistical indicators, in order to achieve the objectives, which are set in introduction chapter. To begin with 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 in the first part. Similarly, 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 in the third part as is mentioned in chapter III. 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 depend upon their earning capacity. Higher EPS of the company shows higher strength and better position is seen in the stock market. EPS is the ratio of net profit after taxes to number of common stocks outstanding. It reveals the earning power of each share over the period by the insurance companies.

Table -I

Earning Per Share of Respective insurance Companies

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	28.73	19.88	19.68	24.58	20.21	23.68	22.79	3.58	15.71
HGICL	25.5	38.41	28.23	34.2	34.45	32.68	32.25	4.66	14.45
SICL	14.24	18.66	20.4	22.56	26.35	28.79	21.83	5.27	24.16
UICL	15.65	15.69	5.97	10.54	15.83	13.56	12.87	3.95	30.67
EICL	65.2	61.75	63.56	67.56	62.87	58.55	63.25	3.06	4.85

Source: - Annual Report

The above table represents the mount of earning per share of concerned insurance companies for six consecutive years (2001/02 to 2006/07).

The table shows that average earning per share of PICL is Rs.22.79, which is the third highest company. The EPS ranges between Rs.19.68 to Rs.28.73. The company's EPS of 2001/02, 2004/05 and 2006/07 are above the yearly average. The standard deviation of the EPS under the period of study is 3.58 and its C.V is 15.17%. It indicates that there is a moderate fluctuation of 15.17% in the EPS of PICL during the period of study.

During the study period the average EPS of HGICL is Rs.32.25, which is the second highest EPS among the selected companies. The EPS of the company ranges between Rs 25.5 to Rs.38.41. The company has not maintained its average EPS in 2001/02 and 2003/04. The EPS of 2001/02 and 2003/04 are below from the yearly average. From the data it can be seen that the EPS of HGICL has been increasing up to the year 2005/06 and then starts falling. The standard deviation is 4.66 and C.V is 14.45%. It means that there is a fluctuation of 14.45% in EPS of HGICL.

Sagarmatha Insurance Company Ltd. has the EPS ranging from Rs.14.24 to Rs.28.79 and an average EPS is Rs.21.83 with a standard deviation of 5.27. The co-efficient of variation which is 24.16% indicates that there is a fluctuation of 24.16% in the EPS of SICL during the study period. From the table it can be seen that the company has maintained the average

EPS in the last three years only. Its EPS is has always been below the yearly average except for the year 2003/04 but its EPS has been increasing during the study period, which is a good symptom.

The average EPS of the UICL is Rs.12.87, which is below the industry average. It has maintained average EPS through the study period except for the years 2003/04 and 2004/05. During the study period, the average EPS can be seen in increasing order and it has been above the yearly average in the years 2001/02 and 2002/03. The standard deviation of EPS is 3.95 whereas the coefficient of variation is 30.67%. It indicates that there is a fluctuation of 30.67% in the EPS of UICL during the period of study.

EICL has the highest average EPS among the selected Insurance Companies. The first highest EPS of the company is Rs.67.56 and average EPS is Rs.63.25 with the standard deviation of 3.07. However it can be seen that the company has maintained its average EPS through out the years of study excluding the years 2002/03, 2005/06 and the year 2006/07. There has been an increasing trend but after 2004/05 it started to decrease, as is seen in the table. The C.V. indicates that there is a fluctuation of 4.85% in EPS of EICL during the study period.

From the above analysis it can be concluded that the average EPS of EICL is the highest and that of UICL is the lowest. During the study period, the EPS of the companies ranges form Rs.12.87 to Rs.63.25. Comparing the overall performance of the selected companies for study with respect to EPS, only two insurance companies out of five companies have been able to maintain industry average, i.e. Rs.30.

4.1.2 Dividend Per Share (DPS)

DPS is defined as the ratio of net profit after interest and preference dividend paid to ordinary shareholders to number of common stocks outstanding. In other words it is the

part of earning distributed to shareholder on per share basis. In this part, only cash dividends between the years 2001/02 to 2006/07 has been analyzed.

Dividend Per Share of Respective insurance Companies

Table -II

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	10.53	0	10	15	10	20	10.92	6.64	60.76
HGICL	15	0	15	15	10	20	12.50	6.89	55.14
SICL	8	10	10	12	15	15	11.67	2.88	24.64
UICL	10	10	15	15	15	10	12.50	2.74	21.91
EICL	20	10	15	20	10	10	14.17	4.92	34.70

Source: - Annual report

The above table shows that the average dividend per share paid by PICL is Rs.10.92 and it ranges between Rs.0.00 to Rs.20.00 during the period of study. The company has not paid cash dividend in the year 2002/03 although it had sufficient profit as per its annual report. From the yearly average analysis, it can be seen that the DPS has always been below through the period of study except in the year 2005/06. The average DPS has also been below the industry average.

During the study period, HGICL has not paid any cash dividend in the year 2002/03. It has average DPS of Rs.12.50, which is almost similar to the industry average. The yearly average analysis shows that the DPS of the HGICL has always been near to the industry average except in the year 2005/06.

Sagarmatha Insurance Company limited has average EPS of Rs. 11.67 and it ranges between Rs.0 to Rs.15. The average DPS is below the industry average i.e. Rs.12.35. The company has been unable to maintain average DPS till the year 2003/04. From the table it can be seen that it stands in between the highest and the lowest yearly average among the selected insurance companies.

The UICL paid the average dividend of Rs. 12.50 and it has not maintained its average in

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the years 2001/02, 2002/03 and 2006/07. It has been able to maintain the industry average level. It has the standard deviation of 2.74 and the coefficient of deviation of 21.91%.

Besides considering the average DPS of insurance companies, it is to state the range of fluctuation in the dividend payment with the help of coefficient of variation (CV). Greater the C.V. Greater will be the variation. Over the six-year study period, UICL and EICL have distributed regular cash dividend and others have been paying fluctuating cash dividends. In the year 2001/02, all companies have paid cash dividend but EICL has paid the highest DPS. In the year 2003, SICL, UICL and EICL are the only ones which have paid cash dividend which is equal to the DPS i.e. Rs.10.00

From the above analysis, it shows that the average dividend per share of EICL is the highest among all the sampled insurance companies.

The industry average DPS of selected companies is Rs.12.35 which is achieved only by HGICL, HGIC and EICL. Other companies have paid the DPS below the industry average. Thus, due to the lack of sustainable strategic dividend policy, the dividend payments of the most companies are fluctuating. This has been due to the fact that the dividends of other insurance companies are fluctuating resulting out of the fluctuations in the earnings.

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 III shows the dividend payout ratio of selected five insurance companies of Nepal.

Dividend Payout Ratio of the Respective Insurance Companies

Table-III

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	36.65	0.00	50.81	61.03	49.48	84.46	47.07	25.61	54.42
HGICL	58.82	0.00	53.13	43.86	29.03	61.20	41.01	21.23	51.78
SICL	56.18	53.59	49.02	53.19	56.93	52.10	53.50	2.62	4.89
UICL	63.90	63.73	251.26	142.31	94.76	73.75	114.95	66.66	57.99
EICL	30.67	16.19	23.60	29.60	15.91	17.08	22.18	6.20	27.95

Source : Annual Report

PICL has an average payout ratio of 47.07%. The company has not paid any dividend in the year 2002/02; therefore the payout ratio in the year is zero. It means that the company has retained the profit for the future proposes. During the study period, the company has maintained the average payout ratio except in the year 2001/02. The yearly average analysis shows that DPR of the company are lower in the years 2001/02 and in the year 2002/03 in comparision to the average derived out of the period of the study. Similarly, the average DPR of the company is lower than the industry average.

Dividend payout ratio of HGICL is in the range between 0 to 61.20% and average DPR is 41.01%. In the year 2002/03, company has not paid any dividend so its DPR in this year is zero. Besides the above year, 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. The average DPR is below the industry average. It is because of zero dividends for two years otherwise its dividend payout ratio is always lower than the industry average of 55.74 percent, whenever it has paid dividend.

SICL has an average payout ratio of 53.50% which has been maintained by the company over all the years except 2003/04 and 206/07 during the study period. The average DPR is little bit below the industry average.

United insurance company has paid dividend regularly for all the years under consideration

and it has paid in less fluctuating rate. The maximum payout ratio of the company is 251.26% in the year 2003/04. The average payout ratio is 114.95% which has been maintained by the company in the year 2003/04 and the year 2004/05. It's average DPR is also above the industry average.

The average dividend payout ratio of Everest Insurance Company Limited is 22.18%, which is less than the industry average and is also the lowest among the selected insurance companies.

According to the above analysis the United Insurance Company Ltd. has the highest level of dividend payout ratio and the lowest is of the Everest Insurance Company Ltd.

4.1.4 Dividend Yield Ratio (DYR)

Dividend yield ratio relates annual dividend to market price per share. Therefore, it highly influences the market value per share. Company should always consider the impact of market scenario before the allocation of dividend to shareholders. The following Table-IV shows the percentage of dividend yield of five insurance companies for the study period from 2001/02 to 2006/07.

Dividend Yield Ratio of Respective insurance Companies

Table- IV

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	6.20	0.00	4.80	6.10	4.50	8.20	4.97	2.76	55.63
HGICL	6.70	0.00	7.70	6.40	3.80	6.90	5.25	2.89	55.08
SICL	4.70	6.70	5.40	6.20	6.80	5.90	5.95	0.80	13.48
UICL	5.30	7.20	10.00	9.10	9.70	5.70	7.83	2.06	26.26
EICL	3.30	1.60	2.70	3.20	1.70	1.60	2.35	0.81	34.54

Source: Securities Board, Nepal

Note : There was no trading volume at the end of year 2000 of SICL, so its MPS remain constant in the year-end 2001

Above table shows that, average DYR of PICL is 4.97%. Dividend yield in the year 2002/03 is zero because the company has not paid any dividend in this year. During the study period, maximum dividend yield is 8.20%. The company has not maintained average

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DYR in the year 2002/03 but the average DYR is above the industry average.

The average dividend yield ratio of HGICL is 5.25%, which is almost equal to the industry average. In the year 2001/02, 2003/04, 2004/05 and 2006/07 its DYR is more than its own average DYR. And in the year 2002/03, the company has not paid any cash dividend. Thus, DYR has remained zero in these years. During the study period, the company has highest DYR in the year 2003/04 - i.e. 7.70%.

The dividend yield of SICL ranges between 0.00 to 6.80% in the years of study period. The average ratio is 5.95% which has been maintained by the company in only two years during the study period. The average DYR is below the industry average. The highest yield ratio is 6.80%, which is in the year 2002/03.

The average DYR of UICL is 7.83%, which stands in the first position among all the sample insurance companies. It is above the industry average. The company has not maintained its average DYR in the years 2001/02, 2002/03 and 2006/07. In the year 2003/04, it has highest DYR of 10%.

EICL has average DYR of 2.35% over the study period, which has been maintained by the company in the years 2001/02, 2003/04 and 2004/05. The company has paid cash dividend in all the years, though it is fluctuating. The highest DYR of the company is 3.30%. It is not higher than the industry average. In the year 2002/03, the company has lowest DYR i.e. 1.60% which is near to negligible.

The above analysis shows, that the DYR of UICL is highest among all. SICL, HGICL PICL and EICL stand second, third, fourth and fifth position respectively. UICL and EICL have paid certain percentage of dividend every year during the study period.

The industry average of DY ratio is 5.27%. UICL and SICL have been able to maintain DY ratio higher than the industry average. The average DYR of PICL, HGICL and EICL is not

so different from the industry average. EICL has the lowest average DYR of the industry average. Considering the fluctuation in DYR, the analysis is made with the help of CV. PICL has the highest fluctuation in DYR due to the highest CV among the sample insurance companies, whereas SICL has more consistency in DYR of all.

Finally, dividend yield of above insurance companies do not show any encouraging figure. The highest DYR is of UICL i.e. 7.83%. The data shows that investors have not realized the 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 by dividing the market price per share by earning per share.

Table- V

Price Earning Ratio of Respective insurance Companies

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	5.91	9.66	10.67	9.97	10.86	10.35	9.57	1.85	19.29
HGICL	8.82	4.95	6.91	6.87	8.70	8.87	7.52	1.57	20.86
SICL	11.94	8.04	9.07	8.64	8.35	8.82	9.14	1.42	15.49
UICL	12.14	8.80	25.13	15.65	9.80	12.90	14.07	5.93	42.16
EICL	9.54	9.88	8.81	9.32	9.38	10.42	9.56	0.55	5.721

Source: Securities Board, Nepal

The above table shows that the P/E ratio of eight sampled insurance companies under the study period. All companies can be seen in the position of fluctuating trend of price earning ratio.

During the study period, PICL has average P/E ratio of 9.57 times, which is maintained by the company in all the years except in the year 2001/02. P/E ratio in the year 200/01 is not

so different than its own average P/E ratio for the period of study. In the years 2002/03, 2003/04, 2004/05 and 2006/07, the P/E ratio are 9.66, 10.67, 9.97, 10.86, and 10.35 times respectively which are below the average P/E ratio. At the same time, the average P/E ratio is also below the industry average i.e. 9.97.

The average P/E ratio of HGICL is 7.52 times, which the company maintains only in the years 2001/02, 2005/06 and 2006/07. HGICL has highest P/E ratio in the year 2006/07 i.e. 8.87 times during the study period. The average P/E ratio is below the industry average.

SICL's P/E ratio ranges from 8.04 to 11.94 times. The average P/E ratio is 9.14 times, which is not maintained by the company except in the year 2001/02. The average P/E ratio is above the industry average.

Average P/E ratio of UICL is 14.07 times which is above the industry average. The company has maintained average ratio only in the year 2004/05. In the years 2001/02 to 2006/07, the P/E ratios are 12.14, 8.80, 25.13, 15.65, 9.80 and 12.90 which are below the average P/E ratio. The highest P/E ratio of its own company is in the year 2003/04 i.e. 25.13 times.

The average P/E ratio of EICL is 9.56 times, which is maintained by the company in the year 2002/03 and the year 2006/07. The average P/E ratio is also below the industry average.

4.1.6 Market Price 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 the share in the market. The following Table-VI shows the MPS to BVPS ratio of selected sampled insurance companies.

Table –VI

MPS to BVPS ratio of Respective insurance Companies

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	0.80	0.83	0.86	0.96	0.84	0.92	0.87	0.06	7.146
HGICL	1.11	0.76	0.76	0.88	0.97	1.03	0.92	0.14	15.69
SICL	1.10	0.90	1.00	1.10	1.20	1.30	1.10	0.14	12.86
UICL	1.00	0.90	0.90	1.00	1.00	1.10	0.98	0.08	7.655
EICL	3.10	3.10	2.80	3.00	3.00	3.00	3.00	0.11	3.651

Source: Securities Board, Nepal

The above MPS to BVPS ratio of EICL is the highest among all i.e. 3 times, which indicates one rupee book value of this company is equal to Rs.3 of MPS. The ratio of EICL is highest in the years 2001/02 and 202/03, but it shows fluctuating ratios during the period of study. The average ratio is above the industry average.

The average MPS/ BVPS ratio of PICL stands in the last position with figures indicating 0.87 times. The Company is unable to maintain the industry average.

The above analysis shows that the ratio of all insurance companies have no difference. The EICL stands in the first position with SICL, UICL and PICL standing in second, third and in fourth position respectively.

The average ratios of all insurance companies have below industry average except EICL.

For considering the fluctuation in MPS/BVPS ratio, the analysis is made with the help of CV. HGICL has the highest fluctuation in ratio due to the highest CV among all the sample insurance companies where as EICL has more consistence ratio of all. Rest have nearly similar fluctuations as is indicated by their respective CV's.

4.2 ANALYSIS OF COMPANY WISE FINANCIAL VARIABLES

In this section, company wise analysis has been presented.

4.2.1 Financial variable of Premier Insurance Company (Nepal) Limited

Table VII

Financial variable of PICL

Variables	No. of cases	Min	Max	Mean	S.D	C.V
EPS	6	19.68	28.73	22.97	3.58	15.71
DPS	6	0	20	10.92	6.64	60.67
DPR	6	0	84.8	47.07	25.62	54.45
DYR	6	0	8.2	4.97	2.76	55.63
P/E Ratio	6	5.91	10.86	9.57	1.85	19.29
MPS/BVPS	6	0.8	0.96	0.87	0.06	7.14

The EPS of PICL has ranged form Rs.19.68 to Rs.28.73 and its mean EPS is Rs.22.97. Its standard deviation is Rs.3.58 and coefficient of variation is 15.71 percent, which indicates a moderate fluctuation in the EPS of the company. The company's average DPS is Rs.10.92, its standard deviation is Rs.6.64 and C.V is 60.67 percent. It means that there is 60.67 percent fluctuation in DPS or 39.33 percent consistency. Its average DPR is 47.07, which shows that the company has distributed 47.07 percent of its profit as dividend and remaining portion of profit is retained by the company. The standard deviation is 25.62 percent and the coefficient of variation is 54.45 percent indicating the fluctuation in DPR. Average dividend yield of the company is 4.79 percent, which can be considered low and the greater fluctuation of 55.63 percent. S.D of P/E ratio and MPS/ NVPS are 1.85 times and 0.06 times respectively and their C.V are 19.29 percent and 7.14 percent respectively.

4.2.2 Financial Variable of Himalayan General Insurance Company Limited

Table VIII

Financial Variable of HGICL

Variables	No. of cases	Min	Max	Mean	S.D	C.V
EPS	6	25.50	38.41	32.25	4.66	14.45
DPS	6	0.00	20.00	12.50	6.89	55.14
DPR	6	0.00	61.20	84.48	94.12	111.41
DYR	6	0.00	7.70	5.21	2.89	55.08
P/E Ratio	6	4.95	8.87	7.52	1.57	20.86
MPS/BVPS	6	0.76	1.11	0.92	0.01	15.69

The above table shows that the average EPS and DPS of HGICL is Rs.32.25 and Rs.12.50 respectively. EPS and DPS ranges from Rs.25.50 to Rs.38.41 and rs.0.00 to Rs.20.00 respectively. The company has not been able to maintain regular and constant dividend. Therefore there is relatively high variation, which shows its C.V as 55.14 percent. The average DPR is 84.48 percent and its S.D and C.V are 94.12 and 111.41 percent respectively. The coefficient of variation is high because the DPR ranges from 0.00 percent to 61.21 percent. The average DYR of the company is 5.21 percent, which can be considered as low and it has greater fluctuation of 55.08 percent. The average of P/E ratio and MPS to BVPS ratio are 7.52 times and 0.92 times respectively. Similarly, their S.D are 1.57 and 0.01 and C.V are 20.86 and 15.69 percent respectively.

4.2.3 Financial Variable of Sagarmatha Insurance Company Limited

Table – IX

Financial variable of SICL

Variables	No. of cases	Min	Max	Mean	S.D	C.V
EPS	6	14.24	27.79	21.43	5.27	24.59
DPS	6	8.00	15.00	11.67	2.88	24.68
DPR	6	49.02	56.93	53.50	2.62	4.90
DYR	6	4.70	6.80	5.95	0.80	13.45
P/E Ratio	6	8.04	11.94	9.14	1.42	15.49
MPS/BVPS	6	0.90	1.30	1.10	0.14	12.82

The indicators of EPs and DPS of SICL ranged form Rs.14.24 to Rs.27.79 and Rs.8.00 to Rs.15.00 respectively. The mean of EPS and DPS are Rs.21.43 and Rs.11.67, S.D are 5.27

and 2.88 and C.V are 24.59 percent and 24.68 percent respectively. The average DPR of this company is 53.50 percent of its profits to the shareholders on an average over the study period and rest portion of profit is remained in the company to meet their capital requirements. Its S.D and C.V are 2.62 and 4.90 respectively. The average DYR is 5.95, its S.D is 0.80 and C.V is 13.45. The DYR of this company indicates that the dividend yield of the insurance company is very high i.e. 13.45 on an average. The average P/E ratio and MPS to BVPS are 9.14 and 1.10 respectively and their S.D is 1.42 and 0.14. Similarly, C.V are 15.49 percent and 12.82 times respectively with their ratios.

4.2.5 Financial Variable of United Insurance Company Limited.

Table X

Financial variable of UICL

Variables	No. of cases	Min	Max	Mean	S.D	C.V
EPS	6	10.54	15.69	12.87	3.95	30.69
DPS	6	10.00	15.00	12.50	2.74	21.92
DPR	6	63.73	251.26	114.45	66.66	58.24
DYR	6	5.30	10.00	7.83	2.06	26.31
P/E Ratio	6	8.80	25.13	14.07	5.93	42.16
MPS/BVPS	6	0.90	1.10	0.98	0.08	7.65

EPS of UICL has ranged between Rs. 10.45 to Rs.15.69. Its mean is Rs.12.87 and standard deviation is Rs.3.95. It has 30.69 percent C.V, which shows that there is 30.69 percent fluctuation in EPS. The average DPS of the company is Rs.12.50 and its S.D and C.V are 2.74 and 21.92 percent respectively. The C.V is 21.92 percent which indicates that there is little fluctuation or 78.08 percent consistency in DPS. Thus, UICL is maintaining stable dividend per share. Average DPR, DYR, P/E ratio and MPS/BVPS are 114.45, 7.83, 14.07 and 0.98 times respectively. Its DPR shows that the company has distributed 114.45 percent of its profit to the shareholders on an average over the period of study and the remaining is retained. S.D of DPR, DYR, P/E ratio and MPS/ BVPS are 66.66, 2.06, 5.93 and 0.08 respectively and their C.V are 58.24, 26.31, 42.16 and 7.65 percent respectively.

4.2.6 Financial Variable of Everest Insurance Company Limited.

Table-XI

Financial variables of EICL

Variables	No. of cases	Min	Max	Mean	S.D	C.V
EPS	6	58.55	67.56	63.25	3.06	4.84
DPS	6	10.00	20.00	14.17	4.92	34.72
DPR	6	15.91	30.67	22.18	6.20	27.95
DYR	6	1.60	3.30	2.35	0.81	34.47
P/E Ratio	6	8.81	10.42	9.56	0.55	5.72
MPS/BVPS	6	2.80	3.10	3.00	0.11	3.67

The financial indicators of EPS and DPS of EICL ranged from Rs.58.55 to Rs.67.56 and Rs.10.00 to Rs 20.00 respectively. The mean of EPS and DPS are Rs.63.25 and Rs.14.17, S.D are 3.06 and 4.92 and C.V are 4.48 percent and 34.72 percent respectively. The average DPR of the company is 22.18 percent, which shows that the company has distributed 22.18 percent of its profit to the shareholders. Likewise the average dividend yield of the company is 2.35 percent, which does not seem an encouraging figure. The C.V indicates that there is 34.47 percent fluctuation on dividend yield. The average P/E ratio and MPPS/BVPS are 9.56 times and 3.00 times respectively. Similarly, their S.D is 0.55 and 0.11 and C.V is 5.72 percent and 3.67 percent respectively.

4.3 CORRELATION ANALYSIS

Correlation analysis is defined as the statistical technique, which measure the degree and direction of relationship between two or more variables. It does not tell any thing about cause and effect relationship of variables but it helps to determine whether a high, moderate or a low degree of positive or negative relation exists. 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 XII

Correlation analysis of DPS and EPS

Companies	CORR (r)	Relationship	r2	PE	Significant test
PICL	0.422	Positive	0.18	0.23	Not Significant
HGICL	0.587	Positive	0.34	0.18	Not Significant
SICL	0.976	Positive	0.95	0.01	Significant
UICL	-0.581	negative	0.34	0.18	Not Significant
EICL	-0.852	negative	0.73	0.08	Not Significant

The above table shows that the relationship between EPS and DPS of five sample insurance companies. It is observed that the coefficient of correlation (r) of SICL is the highest and positive which indicates the high degree of positive correlation. Coefficient of correlation of DPS and EPS among HGICL and PICL is moderate with positive degree of correlation and EICL and UICL have low degree of negative correlation. It indicates that there is inverse relationship between EPS and DPS for these companies. These companies have paid fixed dividend per share during the period of study.

Besides considering the 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 SICL hence relation between EPS and DPS is significant. But the relationship between EPS and DPS is not significant in case of UICL and EICL because the correlation is less than 6 P.E.

Thus we can conclude that DPS of PICL, HGICL, UICL, and EICL do not seem to be dependent on EPS only but the DPS of SICL 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 XIII

Correlation analysis of DPS and MPS

Companies	CORR (r)	Relationship	r2	PE	Significant test
PICL	0.675	Positive	0.46	0.15	Not Significant
HGICL	0.576	Positive	0.33	0.18	Not Significant
SICL	0.87	Positive	0.76	0.07	Significant test
UICL	0.3238	Positive	0.10	0.25	Not Significant
EICL	0.2683	Positive	0.07	0.26	Not Significant

The above table represents the relationship between DPS and MPS of sample insurance companies. From the outcome of above analysis, it is revealed that SICL has high degree of positive correlation between DPS and MPS; PICL and HGICL have moderate degree of positive correlation between DPS and MPS; EICL and UICL have low degree of positive correlation between DPS and MPS. It implies that market price per share affects the dividend per share. PICL being the highest, it has the highest degree of positive correlation between DPS and MPS and EICL has the lowest degree of positive relationship between DPS and MPS.

The coefficient of correlation (r) emerges to be greater than P.E. and less than 6 P.E. so it is difficult to conclude that the relationship between DPS and MPS is significant or not in all the cases of the above listed companies excluding the case of SICL. The correlation coefficient is less than 6 P.E in case of PICL, HGICL, EICL and UICL and therefore 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 payment of dividend.

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

Table XIV

Correlation analysis of EPS and MPS

Companies	CORR (r)	Relationship	r2	PE	Significant test
PICL	-0.22	Negative	0.05	0.26	Not Significant
HGICL	-0.10	Negative	0.01	0.27	Not Significant
SICL	0.89	Positive	0.80	0.06	Significant test
UICL	0.20	Positive	0.04	0.26	Not Significant
EICL	0.21	Positive	0.05	0.26	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 positive in SICL, UICL and EICL. The correlation coefficient of EICL, and UICL has low degree of positive relation between EPS and MPS, PICL and HGICL have inverse degree of relationship. Similarly, SICL has the highest degree of positive correlation between EPS and MPS.

The coefficient of correlation (r) reveals to be greater than 6 PE in case of SICL. Thus the relationship between EPS and MPS is significant. It indicates that the increase or decrease in the price of stock depends upon the EPS. But the correlation is not significant in case of PICL, HGICL, EICL, and UICL because the correlation coefficient is less than 6 PE.

4.3.4 Relationship between Dividend Per Share and Net Worth

Table XV

Correlation analysis of DPS and NW

Companies	CORR (r)	Relationship	r2	PE	Significant test
PICL	0.64	Positive	0.40	0.16	Not Significant
HGICL	0.65	Positive	0.42	0.16	Not Significant
SICL	0.36	Positive	0.13	0.24	Not Significant
UICL	-0.72	Negative	0.52	0.13	Not Significant
EICL	0.57	Positive	0.33	0.18	Not Significant

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

companies. It can be observed from the above table that PICL, HGICL and EICL have the moderate positive relationship between DPS and NW and UCIL has the negative relationship between DPS and NW. Positive correlation means that DPS leads to change in NW, negative correlation means DPS does not lead to change in NW. But no correlation means that DPS does not affect to the NW.

While comparing probable error (PE) with correlation (r), the correlation coefficient of is not greater than 6 PE in any of the above sampled companies, so the relationship between DPS and NW is not significant. Hence this relationship for all the companies is not significant because coefficient of correlation is less than 6 PE. It means that the net worth of the companies does not affect to the declaration of dividend amount.

4.3.5 Relationship between Dividend Per Share and Net Profit

Table XVI

Correlation analysis of DPS and NP

Companies	CORR (r)	Relationship	r2	PE	Significant test
PICL	0.13	Positive	0.02	0.27	Not Significant
HGICL	-0.33	Negative	0.11	0.25	Not Significant
SICL	0.26	Positive	0.07	0.26	Not Significant
UICL	-0.15	Negative	0.02	0.27	Not Significant
EICL	0.80	Positive	0.64	0.10	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 HGICL and UICL. Positive correlation means increased dividend with the increment in net profit. But HGICL and UICL have negative relationship between DPS and NP. It means that DPS is not affected by increase or decrease in net profit.

The coefficient of correlation (r) is greater than 6PE in case of EICL, 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 by using two or more independent variables, it is known as multiple regression analysis. The simple regression analysis is performed for individual sample companies. Here the relevant data is used to predict how one variable is related to other variable to know the impact of the dividend practices, which is followed by the 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 in this study, the multiple regression analysis is presented to search for suitable result as MPS depends upon more than two variables, especially EPS, DPS and NW of five sample insurance companies. There must be either positive or negative relationship between dependent and independent variable.

4.4.1 Simple Regression analysis of DPS on EPS

Table XVII

Simple Regression analysis of DPS on EPS

Regression equation: Y = a + bx

Insurance Companies	Constant (a)	Regression Coefficient (b)	Standard Error	R^2	SEE	t' Value
PICL	-6.893	0.782	0.84	0.178	6.73	0.93
HGICL	36.38	-0.385	0.27	0.337	4.155	-1.496
SICL	0.944	0.79	0.2	0.953	1.285	8.962
UICL	23.34	-0.837	0.587	0.337	5.539	-1.427
EICL	55.72	0.531	0.163	0.726	1.792	2.257

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 except HGICL and UICL (i.e. 0.782, 0.79 and 0.531 respectively). The positive coefficient indicates that one rupee increase in EPS leads to average increase of Rs. 0.782, .79, and 0.531 in dividend per share of PICL, SICL and EICL respectively.

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 than the companies will not be able to pay dividend to its shareholders. Thus the constant (a) of selected insurance companies shows that DPS will not fall below -0.3858, 0.79, -0.837 and 0.531 respectively expect for PICL as its constant(a) is negative.

The coefficients of determination (R^2) of all insurance companies are 0.178, 0.337, 0.953, 0.337 and 0.726 respectively. This means that 17.8%, 33.7%, 95.3% 33.7% and 72.6 % variation in DPS is explained by variation in EPS in case of PICL, HGICL, SICL, UICL and EICL respectively. The result of t-test is not statistically significant at 5% level of significance for any of the sampled companies except for SICL. It means that the EPS is not only the major factor in determining the DPS of insurance companies of Nepal.

4.4.2 Simple Regression analysis of MPS on DPS

Table XVIII

Simple Regression Analysis of MPS on DPS

Regression equation: Y = a + bx

Insurance Companies	Constant (a)	Regression Coefficient (b)	Standard Error	R^2	SEE	t' Value
PICL	180.75	3.013	1.649	0.455	22.46	1.8728
HGICL	-19.19	0.013	0.072	0.333	6.303	1.408
SICL	-1.562	6.761	0.014	0.758	1.5818	3.528
UICL	20.23	-4.77	0.07	0.105	2.8961	0.685
EICL	-18.87	5.49	0.099	0.072	5.2948	0.557

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 except of UICL. The above table indicates that one rupee increase in dividend leads to average increase of Rs. 3.013, 0.013, 6.761 and 5.49 in market price of share of PICL, HGICL, SICL, and EICL respectively. The analysis shows that the regression coefficient of SICL is the highest in comparison to other companies.

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 than the companies will not be able to pay dividend to its shareholders. Since all the companies show negative constant (a) except PICL and UICL, the companies won't be in a position to pay dividend to its shareholders.

The coefficient of determination (R^2) of the companies are 0.455, 0.333, 0.758, 0.105 and 0.072 respectively which indicate that 45.5%, 33.3% , 75.8%, 10.5% and 7.20% variation in MPS is explained by variation in DPS in case of PICL, HGICL, SICL, UICL and EICL respectively.

Tabulated value ($t_{0.05}$) at 5 degree of freedom two tailed is 2.571. Since the calculated t

values of all sampled insurance companies are less than tabulated t value except for SICL. Thus, the result of the study is not statistically significant at 5% levels of significance for any of the companies other than SICL.

4.4.3 Simple Regression analysis of MPS on EPS

Table XIX

Simple Regression Analysis of MPS on EPS

Regression equation: Y = a + bx

Insurance Companies	Constant (a)	Regression Coefficient (b)	Standard Error	R^2	SEE	t' Value
PICL	255.39	-1.837	4.038	0.455	22.46	4.53
HGICL	34.206	-1.13	0.058	0.009	5.749	0.194
SICL	-3.015	0.127	0.032	0.795	2.673	3.933
UICL	5.92	4.288	0.104	0.041	4.3236	0.413
EICL	46.13	2.713	0.062	0.045	3.348	0.435

Note: x and y represent EPS and MPS respectively.

The above table describes output of simple regression analysis between MPS and EPS of sample insurance companies. The regression coefficient (b) of SICL, UICL, and EICL is positive which represents that one rupee increase in EPS leads to an average increases of MPS or Rs. 0.127, 4.288 and 2.713 respectively.

The positive constant (a) means that if EPS is zero then the companies expected MPS will be equal to constant value and the negative constant (a) indicates that if EPS is zero than the companies MPS might not exist. The positive constant (a) of sampled insurance companies are Rs. 255.39, 34.206, 5.92 and 46.13 which means is EPS is zero than the companies market price of stock will be 255.39, 34.206, 5.92 and 46.13   for PICL, HGICL, UICL and EICL respectively.

The R^2 of PICL, HGICL, SICL, UICL, and EICL, are 0.455,   0.009, 0.795, 0.041 and 0.045 respectively. The coefficient of determination of SICL is 0.795 which is higher than the rest of the companies. This indicates that 45.5%, 0.90%, 79.50%, 4.10% and 4.5% variation in MPS is explained by variation in EPS in case of PICL, HGICL, SICL, UICL and EICL

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respectively.

The results are not statistically significant at 5% level of significance expect in case of PICL and SICL as they are above the two tailed tabulated value at 5 degree of freedom.

4.4.4 Simple Regression analysis of NW on DPS

Table XX

Simple Regression Analysis of NW on DPS

Regression equation: Y = a + bx

Insurance Companies	Constant (a)	Regression Coefficient (b)	Standard Error	R^2	SEE	t' Value
PICL	-6.843	0.782	0.84	0.178	6.7276	0.93
HGICL	-22.752	0.649	0.384	0.417	5.88	1.691
SICL	-8.56	-0.23	0.3	0.127	3.0028	0.764
UICL	14.948	-2.59	0.178	0.005	3.053	-0.144
EICL	-54.43	1.117	0.797	0.329	4.502	1.401

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

The simple regression analysis presented in the above table of NW on DPS is of concern. Tthe regression coefficient having positive sign for NW and DPS in case of PICL, HGICL and EICL. The regression coefficient of EICL is highest than other insurance companies i.e. Rs. 1.117 million. Assuming other variable constant indicates that the net worth is increased by Rs.1.117 if the DPS increases by Rs.1.00 per share. But in case of PICL and HGICL the regression coefficient is slightly under 1. In case of SICL and UICL the regression coefficient is negative which implies inverse impact on net worth i.e. one rupee increase in dividend leads to decrease of Rs. 0.23 million and 2.59 million respectively.

The constant (a) of PICL, HGICL, SICL, and EICL are Rs. -6.843, -22.752, -8.56 and -54.43 respectively, all being negative. Only UICL has the positive constant (a) of Rs. 14.948.

The tabulated 't' is 2.571 at $t_{(0.005)}$ of 5 degree of freedom. So the calculated 't' is less than the tabulated 't' The result of this study is not statistically significant in all insurance companies at 5% level of significance. It means that the dividend amount is not only a

major factor to determine the net worth of insurance companies.

4.4 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 the more than two samples F test called "analysis of variance" is done here to find the uniformity of DPS , EPS and MPS.

4.4.1 First hypothesis Test

Null Hypothesis H0: $\Uparrow_1 = \Uparrow_2 = \Uparrow_3 = \Uparrow_4 = \Uparrow_5 = \Uparrow_6 = \Uparrow_7 = \Uparrow_8$

There is no significant difference in DPS of insurance companies.

Alternative Hypothesis: $H_1: \Uparrow_1 \quad \Uparrow_2 \quad \Uparrow_3 \quad \Uparrow_4 \quad \Uparrow_5 \quad \Uparrow_6 \quad \Uparrow_7 \quad \Uparrow_8$

There is significant difference in $\frac{1080.7}{7}$ DPS of insurance companies.

Table XXI

One way NAOVA table

Sources of variation	d.f	Sum of Squares (SS)	Mean sum of squares (MSS = SS (d.f)	F-ratio
Between sample	5 – 1 = 4	1156.77	$\frac{1156.77}{5} = 231.354$	$f = \dfrac{231.354}{21.63}$
With in sample	45 – 5 = 40	865.55	$\frac{865.55}{40} = 21.63$	$= 10.69$
Total	45 – 1 = 44			

Decision,

At 5% level of significant, calculated 'f' value is greater than tabulated 'f' value. Thus, we may conclude that alternative hypothesis is acceptable. It means that there is significant difference in dividend per share (DPS) of insurance companies of Nepal. In other words

there is no uniformity in paying dividend by the insurance companies of Nepal.

4.4.2 Second Hypothesis Test

Null Hypothesis   H0: $\Pi_1 = \Pi_2 = \Pi_3 = \Pi_4 = \Pi_5 = \Pi_6 = \Pi_7 = \Pi_8$

That is population mean EPS of insurance companies are homogeneous

Alternative Hypothesis: $H_1: \Pi_1 \quad \Pi_2 \quad \Pi_3 \quad \Pi_4 \quad \Pi_5 \quad \Pi_6 \quad \Pi_7 \quad \Pi_8$

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

Table XXII

One way NAOVA table

Sources of variation	d.f	Sum of Squares (SS)	Mean sum of squares (MSS = SS (d.f)	F-ratio
Between sample	5 – 1 = 4	7545.35	$\frac{7545.35}{5} = 1509.07$	$f = \frac{1509.07}{103.139}$
With in sample	45 – 5 = 40	4125.56	$\frac{4125.56}{40} = 103.139$	=14.63
Total	45 – 1 = 44			

Decision,

Since calculated F value i.e. 14.63 highly greater that tabulated F value at 5% level of significant. Thus we may conclude that alternative hypothesis is acceptable. It means that there is significant difference in earning per share (EPS) of insurance companies of Nepal. In other words there is no uniformity in EPS of insurance companies of Nepal.

4.4.3 Third Hypothesis Test

Null Hypothesis   H0: $\Pi_1 = \Pi_2 = \Pi_3 = \Pi_4 = \Pi_5 = \Pi_6 = \Pi_7 = \Pi_8$

There is no significant difference in MPS of insurance companies.

Alternative Hypothesis: $H_1: \Pi_1 \quad \Pi_2 \quad \Pi_3 \quad \Pi_4 \quad \Pi_5 \quad \Pi_6 \quad \Pi_7 \quad \Pi_8$

There is significant difference in MPS of insurance companies.

Table XXIII

One way NAOVA table

Sources of variation	d.f	Sum of Squares (SS)	Mean sum of squares (MSS = SS (d.f)	F-ratio
Between sample	5 – 1 = 4	763543	$\frac{763543}{5} = 152709.2$	$f = \frac{152709.2}{10781.275} =$
With in sample	45 – 5 = 40	431251	$\frac{431251}{40} = 10781.275$	14.164
Total	45 – 1 = 44			

Decision,

Table value of F, at 5% level of significance with v1 = 4 and v2 = 40 is 2.25. Since calculated 'f' value is grater than tabulated 'f' value. Therefore alternative hypothesis is acceptable. It means that there is significant difference in market price of share (MPS) of insurance companies of Nepal. In other words there is no uniformity in MPS of insurance companies of Nepal.

4.5 MAJOR FINDINGS

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

1 The average EPS of EICL is Rs.63.25. It is the highest among the selected insurance companies and is comparatively satisfactory during the period of study. But others do not have satisfactory EPS. UICL has the lowest average EPS of Rs12.87. There is the highest 30.67% C.V of UICL and EICL has the lowest C.V of 4.85%. It shows that UCIL has the greater variability in its EPS but EICL has greater consistency in its earning. Thus the coefficient of variation (C.V) indicates that the EPS of insurance companies are not stable.

2 The average DPS indicates that the most of the companies are paying dividend regularly. All of the companies have paid regular dividend during the period of study. Here too EICL is the highest dividend paying company in the sample i.e. 14.17.

3 The average DPS of EICL is higher among all i.e. Rs.14.17, which is comparatively satisfactory whereas PICL has lowest DPS of Rs.10.92 and also has a greater fluctuation in DPS. The C.V of DPS of selected insurance companies ranges from

21.91% to 60.76% during the period of study. It means that there is high variation in DPS of insurance companies. It is not good news to the investor of insurance companies because it increases the risk for them.

4   Similarly the analysis of DPR indicates that the insurance companies of Nepal are not following stable dividend Policy. All companies did not adopt fixed dividend payout ratio. The C.V of sample insurance companies ranges from 4.89% to 57.99%. The average DPR of UICL is the highest among all and EICL has the lowest DPR of 22.18 times with greater variability.

5   The average dividend yield of the UICL is the highest in comparison to the other insurance companies i.e. 7.83% but it is not encouraging figure in share market where as EICL has lowest DYR of 2.35%. This is negligible in comparison with the market price of share. Beside the dividend yield ratio being vary low, the C.V of PICL is 55.63%. It indicates that there is highest fluctuation in DYR. SICL has the lowest C.V of 13.48%. All insurance companies are able to achieve DYR higher than industry average except PICL and EICL.

6   The average P/E ratio is quite low and ranges from 7.52 to 14.07 times during the period of study. UICL has highest P/E ratio of 14.07 times but it has high degree of fluctuation, which shows the C.V of 42.16%. HGICL has lowest average P/E ratio of 7.52 times. However its C.V. is the highest among all. UICL has been able to achieve P/E ratio higher than that of industry average.

7   The market price per share to book value per share ratio shows that the MPS has been higher most of the times than the BVPS. The average ratio from MPS and BVPS is nearly similar ranging between 0.87 to 3.00 times. EICL has the highest average MPS to BVPS ratio and PICL has the lowest ratio. The industry average of MPS to BVPS is 1.37, which is maintained by EICL.

8   The correlation between DPS and EPS , EPS and MPS, DPS 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 applicable for all insurance companies in together.

9   The relationship between DPS and EPS is positive in case of PICL, HGICL and SICL

which means that higher the EPS higher will be the DPS. On the other hand, UICL and EICL have negative relationship between EPS and DPS. It shows that EPS does not affect to determine the DPS. The highest relationship is found in SICL and the lowest in EICL. Only SICL has significant relationship. It implies that DPS of SICL is affected by the EPS but is not affected in case of remaining sample companies i.e. to say that there may be other factors which affects the dividend of the company.

10 The relationship between DPS and MPS is positive in case of all the companies with EICL having the least correlation with DPS and MPS. By testing the significance between DPS and MPS, all insurance companies have found in Not significant relationship excluding SICL. It indicates that DPS is not a major factor to affect the MPS of insurance company of Nepal.

11 SICL has positive relationship with significant relationship at 5% level of significance. It views that EPS of companies does not affect MPS expect SICL.

12 Similarly, the DPS and NW is positively correlated in case of PICL, HGICL and SICL. The higher positive relationship is found in case of HGICL but still has insignificant relationship at 5% level of significance along with the others. However only UICL has negative correlation with insignificant relationship and there is no relationship in case of UICL as well as others. The insignificant relationship in all indicates that NW does not at all affect DPS of the company in consideration to the sample of the study.

13   There is positive correlation with insignificant relationship in case of PICL and SICL between DPS and NP but EICL has positive correlation with significant relationship and there is negative relationship between DPS an NP in case of HGICL and UICL.

14 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 PICL, SICL and EICL among the sample companies that implies the positive relation. In case of SICL where the regression coefficient is the highest, it indicates that Rs.1 increases in EPS leads to increase on an average of Rs. 0.79 in DPS. The relation is statistically insignificant at 5% level of significance in case of all the sample insurance companies except SICL. It shows that the EPS is a major factor for DPS incase of SICL but minor factor for other companies.

15 The regression coefficient of SICL is the highest among all. Their result are statistically insignificant in case of all companies at 5% level of significance except for SICL. It indicates that MPS is not a major factor for the determination of DPS of the company excluding the case of SICL.

16 The regression analysis between MPS on EPS shows that the regression coefficient (b) is positive in almost all the cases excluding PICL and HGICL. It is statistically significant at 5% level of significance in case of PICL and SICL and others have insignificant result.

17 With respect to impact of NW on DPS, mix result is found in all sample insurance companies. SICL and UICL are found with negative results while PICL, HGICL and EICL have found positive regression coefficient. The result is statistically insignificant in all at 5% level of significance. It indicates that dividend amount is not a major factor to determine the net worth (NW) of insurance companies.

18 From the test of hypothesis (ANOVA), it is found that there is no uniformity in paying dividend by the insurance companies, Similarly EPS and MPS of the sample companies do not have uniformity at 5% level of significance on the basis of f-test.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 SUMMARY AND CONCLUSION

It is seen that the financial activities have been growing very fast for last 15 years in Nepal. Many commercial banks, financial companies, insurance companies, co-operatives and others have set up within a short period of time.

Nepal has adopted liberal economic policy since 1990. The basic objective of the policy was to bring healthy competition in the financial sector, insurance sector and to attract the investment from private sector. As the result many insurance companies have been established and got listed in Nepal Stock Exchange which numbered 17 by 2007. Among them PICL, HGICL, SICL, UICL and EICL were established during that period and were taken for the study.

As this research is related to financial aspect, the dividend practice of the insurance companies and their financial strength and weakness of PICL, HGICL, SICL, UICL and EICL have been measured on the basis of the dividend practices which can be drawn from the balance sheet, profit and loss a/c and the cash flow statement and different tools that have been used in the study. Moreover many related pilot works along with their objectives have been studied to remove the change of duplication. The various texts books, published journal and thesis have also been reviewed for the best evaluation possible.

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 study mainly aims to access the dividend policy and practices of insurance companies of Nepal. It specific objectives are *(i)* To find 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 per share or stock price. *(iii)* To analysis the factors affecting dividend policy of insurance companies *(iv)* to provide the workable suggestion and possible guidelines to over come various gaps based on the findings of the analysis.

For analyzing the financial data, the financial tools like ratio analysis, cash flow analysis, and statistical tools like arithmetic mean, coefficient of variation have been extensively used. Like wise income and expenditure analysis technique has also been used to derive fruit-full result. Cash flow analysis technique has also been used to know the flow of cash and cash equivalent during the period.

This study is based on secondary data of five insurance companies (PICL, HGICL, SICL , UICL, and EICL) listed in Nepal Stock Exchange covering 6 years i.e. from 2001/02 to 2006/07. The available secondary data have been analyzed by using mean, standard deviation, coefficient of variation (CV), correlation coefficient (r) simple regression analysis and multiple regression analysis. Mean, standard deviation and coefficient of variation (CV) are used to know the financial strength of the sample insurance companies. Correlation analysis is used to know 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. Likewise, 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. Followings are the main conclusions of the study.

- There is positive correlation between the DPS and EPS in almost all the companies, which means higher the EPS higher will be the DPS.
- For some companies, dividend is not only a factor that affects the market price of

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

- 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 better. 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.

- 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. After that concern is about change in the stock price as is found in the Nepal Exchange Board. Similarly, priority is also influenced by the kind of dividend policy that is adopted by the insurance companies of Nepal.

- More or less Earnings per share, retention ratio, net profit and net worth per share in different insurance companies affect the dividend per share.

- The effect of dividend per share to market price per share is quite interesting and the chemistry is different for different companies.

- There is no uniformity in dividend distribution policy adopted by insurance companies in Nepal.

- There isn't any stability in the dividend payout ratio of the companies because there is more fluctuation in the dividend payment.

- There is not similarity of P/E ratio and DYR among insurance companies in Nepal.

- Most companies are not paying regular cash dividend.

5.3 RECOMMENDATIONS

The study has reflected the strength and weaknesses of the insurance companies with respect to dividend payment and financial performances. So, some recommendations have

been made for the improvement in the weak areas of the respective insurance companies. These recommendations have been made.

1. Marginal efficiency and assets utilization position of the sampled insurance companies seems unsatisfactory with respect to activity ratio, so it is requested to the companies to be more serious in generating high loans and advances etc.

2. 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.

3. They should improve overall efficiency by investing assets in more returnable sectors i.e. in risky areas after proper risk analysis. Expenses on office operations should be minimized by withdrawing unnecessary expenses and maximum utilization of available manpower.

4. The government should clearly define 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.

5. As per the EPS, DPS, MPS and DP ratio, all companies can be seen in the fluctuating position so it is fruitful for all if they make improvement on EPS, DPS, MPS and DP ratio. Full concentration should be paid to create more and more profit.

6. In the context of Nepal, DPS seems least affecting in the market price per share. It may be due to the lack of knowledge of the past payment of dividend among investors and unavailability of sufficient information. Therefore investors must be made aware of stock market by supplying sufficient information required for the investment.

7. Especially insurance companies are suggested to review their overall capital structure and investment portfolio to make better mix in capital structure.

8. Variance with respect to different financial variables have been found in fluctuating position and it does not express the favorable situation for the investors. Therefore, all companies are advised to keep more uniformity in dividend payment.

9. The insurance companies are suggested not to limit their activities in urban areas only. So, it is advised to diversify their services by spraying branches all over the country as per the directives of insurance companies. They are also advised to introduce new product and system and improve their services which would help in generating more and more wealth for the stockholders.

APPENDIX-A

Primer Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW (million)	BVPS
2001/02	10.53	28.73	170	8619548	64.13	213.77
2002/03	0.00	19.88	192	5965799	69.37	231.23
2003/04	10.00	19.68	210	6860669	72.45	245.65
2004/05	15.00	24.58	245	7546736	76.25	254.23
2005/06	10.00	20.21	220	8754213	81.25	261.56
2006/07	20.00	23.68	245	8065545	86.32	267.56

Himalayan General Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW (million)	BVPS
2001/02	15	25.5	225	7650365.0	60.53	201.77
2002/03	0	38.41	190	11523468.0	45.16	250.53
2003/04	15	28.23	195	9562956.3	47.32	255.56
2004/05	15	34.2	235	10519251.9	53.56	268.32
2005/06	10	30.45	265	12097139.7	58.25	272.62
2006/07	20	32.68	290	11475547.5	61.23	281.23

Sagarmatha Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW (million)	BVPS
2001/02	8	14.24	170	9520140	80.84	158.25
2002/03	10	18.66	150	10404690	88.74	174
2003/04	10	20.4	185	11965394	94.25	181.23
2004/05	12	22.56	195	12485628	86.23	185.54
2005/06	15	26.35	220	10987353	88.23	189.45
2006/07	15	28.79	254	10612784	90.45	190.56

United Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW (million)	BVPS
2001/02	10	15.65	190	8884715	110	183.33
2002/03	10	15.69	138	3384836	91.95	153.25
2003/04	15	5.97	150	4653161	98.25	159.25
2004/05	15	10.54	165	5431456	97.85	163.48
2005/06	15	15.83	155	4725635	91.25	157.29
2006/07	10	13.56	175	4125895	88.45	155.78

Everest Insurance Company Limited

Year	DPS	EPS	MPPS	TE	NW (million)	BVPS
2001/02	20	65.2	610	19560275	60	200
2002/03	10	61.75	610	18522285	60	200
2003/04	15	63.56	560	18982553	63	203.25
2004/05	20	67.56	630	19855466	65.56	208.65
2005/06	10	62.87	590	19254786	61.28	200
2006/07	10	58.55	610	18965482	58.56	203.54

APPENDIX-B

Earning Per Share (EPS) - Rs.

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	28.73	19.88	19.68	24.58	20.21	23.68	22.79	3.58	15.71
HGICL	25.5	38.41	28.23	34.2	34.45	32.68	32.25	4.66	14.45
SICL	14.24	18.66	20.4	22.56	26.35	28.79	21.83	5.27	24.16
UICL	15.65	15.69	5.97	10.54	15.83	13.56	12.87	3.95	30.67
EICL	65.2	61.75	63.56	67.56	62.87	58.55	63.25	3.06	4.85

Dividend Per Share (DPS) - Rs.

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	10.53	0	10	15	10	20	10.92	6.64	60.76
HGICL	15	0	15	15	10	20	12.50	6.89	55.14
SICL	8	10	10	12	15	15	11.67	2.88	24.64
UICL	10	10	15	15	15	10	12.50	2.74	21.91
EICL	20	10	15	20	10	10	14.17	4.92	34.70

Dividend Payout Ratio (DPR) - %.

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	36.65	0.00	50.81	61.03	49.48	84.46	47.07	25.61	54.42
HGICL	58.82	0.00	53.13	43.86	29.03	61.20	41.01	21.23	51.78
SICL	56.18	53.59	49.02	53.19	56.93	52.10	53.50	2.62	4.89
UICL	63.90	63.73	251.26	142.31	94.76	73.75	114.95	66.66	57.99
EICL	30.67	16.19	23.60	29.60	15.91	17.08	22.18	6.20	27.95

Dividend Yield Ratio (DYR) - %.

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	6.20	0.00	4.80	6.10	4.50	8.20	4.97	2.76	55.63
HGICL	6.70	0.00	7.70	6.40	3.80	6.90	5.25	2.89	55.08

SICL	4.70	6.70	5.40	6.20	6.80	5.90	5.95	0.80	13.48
UICL	5.30	7.20	10.00	9.10	9.70	5.70	7.83	2.06	26.26
EICL	3.30	1.60	2.70	3.20	1.70	1.60	2.35	0.81	34.54

Price Earning Ratio (P/E Ratio) - %.

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	5.91	9.66	10.67	9.97	10.86	10.35	9.57	1.85	19.29
HGICL	8.82	4.95	6.91	6.87	8.70	8.87	7.52	1.57	20.86
SICL	11.94	8.04	9.07	8.64	8.35	8.82	9.14	1.42	15.49
UICL	12.14	8.80	25.13	15.65	9.80	12.90	14.07	5.93	42.16
EICL	9.54	9.88	8.81	9.32	9.38	10.42	9.56	0.55	5.72

MPS to BVPS - %.

Companies /Yrs.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average	S.D	C.V
PICL	0.80	0.83	0.86	0.96	0.84	0.92	0.87	0.06	7.15
HGICL	1.11	0.76	0.76	0.88	0.97	1.03	0.92	0.14	15.69
SICL	1.10	0.90	1.00	1.10	1.20	1.30	1.10	0.14	12.86
UICL	1.00	0.90	0.90	1.00	1.00	1.10	0.98	0.08	7.66
EICL	3.10	3.10	2.80	3.00	3.00	3.00	3.00	0.11	3.65

APPENDIX-C

REGRESSION ANALYSIS BY USING SPSS PROGRAMMER

PREMIER INSURANCE COMPANY LIMITED

1. DPS on EPS

R	.422
R2	.178
Adjusted R2	-0.28
Std Error of the Estimate	6.7272

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
Constant	-6.893	19.353	-	-.366	0.74
EPS	0.782	0.84	0.422	0.93	0.40

2. MPS on DPS

R	0.675
R2	0.455
Adjusted R2	0.319
Std Error of the Estimate	22.46

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
Constant	180.75	20.59		8.779	0.001
EPS	3.013	1.649	0.675	1.828	0.142

3. MPS on EPS

R	0.221
R2	0.049
Adjusted R2	–0.189
Std Error of the Estimate	32.32

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
Constant	255.399	92.975		2.747	0.52
EPS	-1.837	4.038	-0.221	4.53	0.674

4. NW on DPS

R	0.422
R2	0.178
Adjusted R2	-0.028
Std Error of the Estimate	6.7276

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
Constant	-6.893	19.352		-0.356	0.740
DPS	0.782	0.840	.422	0.930	0.405

HIMALAYAN GENERAL INSURANCE COMPANY LIMITED

1. DPS on EPS

R	0.588
R2	0.337
Adjusted R2	0.171
Std Error of the Estimate	4.155

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
Constant	36.38	3.773		9.642	0.001
EPS	-0.385	0.270	-5.81	-1.426	0.227

2. MPS on EPS

R	0.576
R2	0.333
Adjusted R2	0.164
Std Error of the Estimate	6.303

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
Constant	-11.19	17.024		-0.657	0.547
DPS	0.102	0.072	0.576	1.408	0.232

3. MPS on EPS

R	0.096
R2	0.009
Adjusted R2	-0.238
Std Error of the Estimate	5.799

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
Constant	34.206	13.744		2.492	0.067
EPS	-1.13	0.058	-0.096	-0.194	0.856

4. NW on DPS

R	0.646
R2	0.417
Adjusted R2	0.217
Std Error of the Estimate	5.88

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
Constant	-22.758	20.985		-1.084	0.399
DPS	0.649	0.384	0.646	1.691	0.166

SAGARMATHA INSURANCE COMPANY LIMITED

1. DPS on EPS

R	0.976
R2	0.953
Adjusted R2	0.941
Std Error of the Estimate	1.285

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	b	Std. Error	Beta	t	Sig.
Constant	0.944	2.389		0.395	0.713
EPS	5.790	0.200	0.976	8.962	0.001

2. MPS on EPS

R	0.871

R2	0.758
Adjusted R2	0.697
Std Error of the Estimate	1.5818

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	b	Std. Error	Beta	t	Sig.
Constant	-1.562	3.74		-0.412	0.702
DPS	6.761	0.019	0.871	3.538	0.024

3. MPS on EPS

R	0.891
R2	0.795
Adjusted R2	0.743
Std Error of the Estimate	2.673

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	b	Std. Error	Beta	t	Sig.
Constant	-3.015	6.411		0.470	0.663
EPS	0.127	0.032	0.891	3.933	0.017

4. NW on DPS

R	0.357
R2	0.127
Adjusted R2	-0.093
Std Error of the Estimate	3.0028

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	b	Std. Error	Beta	t	Sig.
Constant	-8.56	26.493		-0.323	0.763
DPS	-0.230	0.30	0.357	0.764	0.487

UNITED INSURANCE COMPANY LIMITED

1. DPS on EPS

R	0.581
R2	0.337
Adjusted R2	0.172
Std Error of the Estimate	3.539

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	b	Std. Error	Beta	t	Sig.
Constant	23.34	7.481		3.12	0.036
EPS	-0.837	0.587	-0.581	-1.427	0.227

2. MPS on EPS

R	0.324
R2	0.105
Adjusted R2	-0.199
Std Error of the Estimate	2.8969

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	b	Std. Error	Beta	t	Sig.
Constant	20.23	11.35		1.756	0.149
DPS	-4.77	0.070	-3.24	-0.685	0.531

3. MPS on EPS

R	0.202
R2	0.041
Adjusted R2	-0.199
Std Error of the Estimate	4.3236

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	b	Std. Error	Beta	t	Sig.
Constant	5.92	16.945		0.399	0.744
EPS	4.288	0.104	0.202	0.413	0.703

4. NW on DPS

R	0.72
R2	0.005
Adjusted R2	-0.244
Std Error of the Estimate	3.053

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	b	Std. Error	Beta	t	Sig.
Constant	14.948	17.025		0.878	0.430
DPS	-2.59	0.176	-0.72	-0.144	0.893

EVEREST INSURANCE COMPANY LIMITED

1. DPS on EPS

R	0.852
R2	0.726
Adjusted R2	0.658
Std Error of the Estimate	1.7921

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	b	Std. Error	Beta	t	Sig.
Constant	55.72	2.429		22.99	.00
EPS	0.531	0.163	0.852	2.257	0.031

2. MPS on EPS

R	0.268
R2	0.072
Adjusted R2	-0.160
Std Error of the Estimate	5.2948

Variables in Equation

	Unstandardized Coefficient	Standardized Coefficient

	b	Std. Error	Beta	t	Sig.
Constant	-18.87	59.37		-0.319	0.766
DPS	5.49	0.099	0.268	0.557	0.607

3. MPS on EPS

R	0.213
R2	0.045
Adjusted R2	-0.194
Std Error of the Estimate	3.348

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	b	Std. Error	Beta	t	Sig.
Constant	46.93	37.539		1.25	0.279
EPS	2.713	0.062	0.213	0.435	0.686

4. NW on DPS

R	0.574
R2	0.329
Adjusted R2	0.165
Std Error of the Estimate	4.502

Variables in Equation

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
Constant	-54.429	48.199		-1.44	0.329
DPS	1.117	0.797	0.574	1.401	0.234

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