FINANCIAL PERFORMANCE ANALYSIS OF NEPALESE NON-LIFE INSURANCE INDUSTRY

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

by

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Financial Performance Analysis of Nepalese Non-Life Insurance Industry"**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

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Ashmita Chapagain

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ABBREVIATIONS

AGE	:	Firm Age
CV	:	Coefficient of Variation
GDP	:	Gross Domestic Products
HEI	:	Himalayan Everest Insurance Limited
LEV	:	Leverage
LIQ	:	Liquidity
Ln Size	:	Natural Logarithm of Size or Total Assets
Ltd.	:	Limited
NIL	:	Neco Insurance Ltd.
NLG	:	NLG Insurance Company Limited
PG	:	Premium Growth
RMP	:	Relative Market Power
ROA	:	Return on Total Assets
ROE	:	Return on Equity
SCP	:	Structure Conduct Performance
SD	:	Standard Deviation
SICL	:	Shikhar Insurance Company Limited
SIL	:	Siddhartha Insurance Limited
TU	:	Tribhuvan University

ABSTRACT

This study investigates the financial performance analysis of Nepalese non-life insurance industry. This study has employed descriptive and casual comparative research design. This study used secondary data sources gathered from insurance companies of Nepal for ten year periods (2013/14-2022/23). This study used descriptive analysis, correlation analysis and multiple regression analysis by using SPSS. The result reveals that the age of companies, liquidity, leverage, premium growth and size of the companies are important factors affecting the financial performance of insurance companies in Nepal. The correlation analysis shows that age of the companies and liquidity ratio have significant negative relation with financial performance (ROA and ROE) of sample insurance companies in Nepal. Then, leverage has significant positive relationship with ROA and ROE. The correlation analysis also shows that premium growth has significant positive correlation with ROA and it has insignificant positive relation with ROE. Moreover, the size of companies has significant negative relationship with financial performance (ROA and ROE) of insurance companies in Nepal. The study also shows that age of companies and liquidity ratio has significant positive impact on financial performance (ROA and ROE) of insurance companies. Then, leverage ratio has insignificant negative impact on ROA and insignificant positive impact on ROE of insurance companies. In addition, premium growth has insignificant positive impact on financial performance (ROA and ROE) of insurance companies in Nepal. Moreover, size of companies has insignificant negative effect on financial performance (ROA and ROE) of insurance companies in Nepal. Hence, it can be concluded that age of companies and liquidity are the key factors of financial performance of insurance companies in Nepal.

Keywords: Return on Assets, Return on Equity, Firm Age, Liquidity Ratio, Leverage Ratio and Premium Growth.

CHAPTER-I
INTRODUCTION

1.1 Background of the Study

Performance in business influences not just how much a company's market value rises, but it also helps the industry expand overall, which raises the general prosperity of the economy. Since insurers serve as both intermediaries for risk transfer and aid in the allocation of capital in a manner that promotes economic activity, assessing the variables that impact insurer performance has gained importance in the literature on corporate finance. However, it has not received much attention, particularly in emerging economies (Ahmed et al., 2011).

Financial performance of insurance firms is essential to their existence as well as their future expansion and development. Furthermore, regulators, potential investors, workers, brokers, stockholders, and insurers are all directly impacted by the financial performance of insurance firms (Kung et al., 2006). In this context, a company's profitability, scale, and continuity of operations serve as its primary performance indicators. Internal, insurance industry, and macroeconomic variables are the three categories of elements that impact an insurance company's performance (Pjanic et al., 2018).

Similar to the business's performance, profit is a crucial requirement for boosting a company's ability to compete on the international stage. Furthermore, a profit draws in investors and raises the degree of solvency, which boosts customer confidence. When policymakers are making decisions about whether to take over the risks and investment activities of an insurance firm, one crucial tool they utilize is financial analysis. Because the insurance sector is one of the components of the financial system that promotes economic growth and stability, the financial performance of insurance businesses is also significant in the macroeconomic setting (Burca & Batrinca, 2014).

Financial performance measures an organization's earnings, profits, and value appreciations as evidenced by the rise in the company's share price. In the insurance business, turnover, returns on investment, net premiums received, underwriting

activity performance, and return on equity are often used metrics to assess performance. These measures can be classified as either profit performance metrics or investment performance measurements. The monetary worth of a profit is only one facet of its performance. It's the difference between what is collected and what is spent, to put it simply. Revenue and expenditure are two components that are influenced by industry features, macroeconomic variables, and firm-specific characteristics. There are two ways that investment performance might manifest. The first is the return on non-cash assets used in the business, and the second is the return on the investment activities of the excess cash at different levels realized from operations (Lee, 2014).

The immune and repair system of the economy includes the vital role that financial institutions, such as insurance companies, continue to play in financing and insuring economic activity and in contributing to the stability of the financial system in particular and the stability of the economy of the concerned country in general. Consequently, empirical research is needed to identify the key variables influencing insurance businesses' financial performance. This will enable pertinent issues to be brought to the attention of the relevant agencies. Therefore, the effectiveness of the institutions' operations has become crucial, and studies conducted by various scholars concentrate on the variables that affect performance, particularly the sector's financial performance (Yuvaraj & Abate, 2013).

The last few years have seen an increase in the performance of insurance companies, as the industry not only offers a means of saving money but also acts as a conduit for funds to be allocated from surplus to deficit sectors of the economy in order to support investment activities. Their capacity to produce more income. Financial performance can be used to compare the performance of various organizations within an industry or between industries because it quantifies the organization's soundness and health in terms of money. The expansion of the insurance sector as a whole is greatly influenced by the financial performance of the insurance companies, which eventually helps an economy succeed (Arif & Showket, 2015).

Insurance companies operates in a risky and uncertain environment. Numerous variables affect the success of these insurance companies; some are readily under the

corporate leadership's control (internal factors), while others appear to be beyond their control (external factors) (Msomi & Nzama, 2023). Laws, competition, and technological breakthroughs are examples of external factors that are a result of the external environment. Internal firm problems have an impact on insurance performance. Business performance could suffer if the management of the organization is unable to adjust to these conditions.

In general, business activities involve risks, and if such risks are not controlled, the company's financial success may be jeopardized. Because they are better prepared for times after the incidence of the relevant risks, companies with effective risk management strategies perform better than their counterparts. The primary focus of this study is to analyze the financial performance of non-life insurance companies in Nepal.

1.2 Problem Statement

Financial performance has long been a key focus for business professionals across various sectors, as it impacts an organization's overall health and survival (Amal, 2012). Strong performance reflects the efficient and effective use of a company's resources, benefiting the broader economy. Achieving solid financial results leads to reasonable profits, making financial performance a crucial corporate objective since enhancing the owner's wealth is a primary aim of financial management. Specifically, the insurance industry plays a vital role in the economy's stability and recovery. When it operates effectively, it can stimulate growth in other economic sectors. There is an expectation for the insurance industry to remain strong, financially sound, and well-managed. Thus, alongside assessing the financial performance of insurance companies, it is essential to have a thorough understanding of the factors that influence this performance.

Mwangi and Murigu (2015) came to the conclusion that the results of the research on age, underwriting risk, liquidity, retention ratio, and performance were uncorrelated. Malahim and Khatib (2016) demonstrated that a company's capacity to generate profits for Islamic insurance businesses was positively and significantly impacted by its size. Furthermore, the debt ratio and inflation rate had a positive effect on financial performance, but these effects were not statistically significant. Tesfaye (2016)

indicated that capital volume and previous profit performance had a positive and substantial impact on financial performance, whereas solvency margin and loss ratio had a negative association and significant effect. The lag GDP rate and current inflation have a positive and significant impact on ROA, in contrast to the lag inflation and exchange rate, which had a negative and significant impact.

Deyganto and Alemu (2019) found that the financial performance of insurance businesses was significantly impacted by underwriting, premium growth, solvency ratio, GDP growth rate, and inflation rate. Underwriting risk was shown to have a statistically significant negative impact on insurers' financial performance by Bishaw et al. (2019). They also showed a strong correlation between business size and financial performance, with larger companies having a favorable effect on insurers' financial performance. Ishtiaq and Siddiqui (2019) discovered that in their study of Pakistani Life Insurance Companies, variables such as liquidity, underwriting risk, debt-to-equity ratio, equity capital, capital surplus, and inflation showed a positive and significant correlation with financial performance. However, factors like tangibility, market share, net premium, insurance leverage, and GDP did not demonstrate such a relationship.

Pradhan and Pokharel (2020) concluded that there was a significant correlation between the performance of insurance businesses in Nepal and their age, size, and liquidity. Leverage, tangibility, and GDP growth rate all showed favorable relationships with the success of Nepalese insurance companies. Meher and Zewudu (2020) discovered that GDP per capita and business size had a positive and significant association with asset returns, but leverage, liquidity, and underwriting risk showed a negative but significant correlation. Legass et al. (2021) discovered that the financial performance of Ethiopian insurance companies was significantly impacted negatively by other factors such as inflation rate, underwriting risk, and leverage, but positively and statistically significantly by the liquidity ratio, premium growth, and GDP. According to Tsvetkova et al. (2021), there is a positive correlation between a company's size, return on assets (ROA), liquidity ratio, claim ratio, and return on equity (ROE). ROA was negatively correlated with both inflation and the premium growth rate.

The study conducted by Jaishi and Poudel (2021) revealed that the financial performance of insurance businesses in Nepal was influenced by several major aspects, including the ratio of total debt to total assets, leverage, firm size, liquidity, and tangibility. Leverage and liquidity have a major detrimental influence on the financial performance of Kenyan insurance businesses, as demonstrated by Kamau et al. (2021). According to Sugiharto's (2022) findings, there was a sequential relationship between the financial performance, or return on equity, and the current ratio, expense ratio, and economic growth. These impacts varied. Barakat et al. (2022) found that both firm size and solvency margin had a statistically significant and favorable influence on return on equity. The findings showed that the audit committee and the claims loss ratio had a statistically significant negative effect on return on equity.

Msomi and Nzama (2023) showed that there was no statistically significant impact of leverage and liquidity ratios on the financial performance of insurance enterprises in South Africa. Upadhyay and Sitlani (2023) have reported that the financial performance of the respondent organizations was found to be significantly predicted by the following factors: age of the business, claims ratio, management expense ratio, premium growth, retention ratio, and technical reserve ratio. Msomi (2023) showed that the statistically significant factors influencing the financial performance of non-life insurance companies in Africa are lagged return on assets, equity capital, investment capability, and gross domestic product, even though operational efficiency, leverage, and equity capital have the opposite significance. It is unclear what variables impact the financial performance in Nepalese insurance companies and to what extent, given these contradictory results. Additionally, there aren't many studies in the specific field of insurance firms, therefore this study will close a gap in the sector. The study's goal was to investigate the variables influencing Nepali insurance firms' financial performance. More precisely, the goal of this research is to provide an answer to the following query:

1. What are the pattern and status of financial performance of non-life insurance in Nepal?
2. What is the relationship between firm specific (internal) factors and financial performance of non-life insurance in Nepal?

3. How the firm specific factors such as liquidity, firm age, leverage, gross premium and size of companies effect the financial performance of non-life insurance in Nepal?

1.3 Objectives of the Study

The main objective of the study is to examine the financial performance analysis of selected non-life insurance in Nepal. The specific objectives of the study are as follows:

1. To assess the pattern and status of financial performance of non-life insurance in Nepal.
2. To examine the relationship between firm specific (internal) factors and financial performance of non-life insurance in Nepal.
3. To examine the effect of firm specific factors such as such as liquidity, firm age, leverage, gross premium and size of companies on financial performance of non-life insurance in Nepal.

1.4 Hypothesis of the Study

The following hypothesis is developed to summarize the main focus and scope of this study in terms of variables included.

H_1: There is significant impact of liquidity on financial performance of insurance companies in Nepal.

H_2: There is significant impact of age on financial performance of insurance companies in Nepal.

H_3: There is significant impact of leverage on financial performance of insurance companies in Nepal.

H_4: There is significant impact of gross premium on financial performance of insurance companies in Nepal.

H_5: There is significant impact of size of companies has positive impact on financial performance of insurance companies in Nepal.

1.4 Rationale of the Study

For Nepalese insurance companies, the study is extremely important. It makes it possible to comprehend the variables that affect these businesses' performance. The

management of these firms will find this to be very helpful in developing different approaches to deal with these challenges. They may make the most of these elements and use them to their advantage to obtain a competitive edge since they are aware of them. The study offers useful information on the factors influencing insurance businesses' performance, which is important for regulatory and policy agencies. As a result, the Beema Samiti may use the study's conclusions to raise the standard of performance in the sector. The study sheds light on the precise factors that affect insurance firms' profits in Nepal. This deepens our comprehension of the insurance idea, which has piqued the curiosity of most scholars. Therefore, this serves as a foundation for further research. Furthermore, the study's conclusions and suggestions serve as a roadmap for how the organizations should coordinate their operations and resources. This has a significant positive impact on these organizations' performance, which has remained stagnant for some time.

1.5 Limitations of the Study

The study only looks at Nepalese non-life insurance businesses' financial performance analysis. Therefore, the limitations of the study are as follows:

- This study analyzes the factors affecting the financial performance of five non-life insurance companies: NLG Insurance Company Limited (NLG), Neco Insurance Ltd. (NIL), Himalayan Everest Insurance Limited (HEI), Shikhar Insurance Company Limited (SICL), and Siddhartha Insurance Company Limited (SIL).
- It is based solely on data from the past ten years, covering the fiscal years 2013/14 to 2022/23.
- The research relies on secondary data obtained from the annual reports of the respective companies and the insurance board, and does not include primary data sources.
- For data analysis, the study employs descriptive statistics, correlation analysis, and multiple regression analysis.
- It considers five specific firm-related factors as explanatory variables: liquidity, firm age, leverage, gross premium, and company size.

CHAPTER-II
LITERATURE REVIEW

The literature review is an essential step in any research project. It entails examining existing research papers and relevant claims in the field to understand past studies, their limitations, and their findings. This chapter can be informed by analyzing relevant books, articles, both published and unpublished works in various economic journals, magazines, newspapers, annual reports from relevant banks, previous theses on similar topics, and online research related to the subject. The chapter is organized into two parts: the theoretical review and the empirical review.

2.1 Theoretical Review

2.1.1 Theories of Financial Performance

The theories examined in this study include the theory of insurance demand, resource-based view theory, customer perceived value theory, performance theory, fraud scale theory, and stewardship theory.

2.1.1.1 The Theory of Insurance Demand

The idea of insurance demand is frequently used as a model for how the economy behaves when faced with uncertainty. Trade hazards are a prevalent issue in many models, however they are frequently structured around transactions. Contrarily, insurance protects against personal danger. Consumers may decide to share their risks with a broader group or attempt to reduce this risk by adopting precautionary measures. However, running a company like that might provide its own challenges (Schlesinger, 2012). The insurance company's device is one in which the company guarantees an indemnification for damages suffered in exchange for a certain premium. Insurance is essentially a financial asset in certain respects. But unlike other financial assets, which are easily traded and contain market-related risk, insurance is a contract that is dependent on changes in an individual's personal wealth. What sets insurance apart from other financial assets is its human aspect. Additionally, it makes informational asymmetry issues like moral hazard and adverse selection worse (Schlesinger, 2012).

2.1.1.2 Resource Based View Theory

The resource-based perspective hypothesis, according to Penrose (2009), is predicated on the idea that businesses have resources that provide them a competitive edge, excellent long-term performance, and the ability to pay their debts when they become due. According to Hansen and Wernerfelt (2009), empirical research on the resource-based perspective theory has revealed variations in the performance of businesses both inside and between smaller subsets of the same industry (Cool & Schendel, 2008).

According to Penrose (2009), the resource-based viewpoint theory of organizations maintains that a company's competitive advantage and outstanding business outcomes are the result of organizational intrinsic qualities. The main prediction of the resource-based perspective theory is that exceptional and long-lasting business results can be achieved via the deployment of specific organizational resources and competencies. The framework begins with a list of the goals and results that management is hoping to achieve in order to give the business a sustained competitive edge and enable it to earn revenue from rent. In a similar vein, the resource-based perspective theory addresses the difficulties a corporation may encounter in obtaining and maintaining those advantages. The resource-based view theory solves the issues facing the companies by allocating sufficient critical resources for growth and sustainability.

According to Fahy and Smithee (2009), the resource-based view theory is focused on the firm's ability to maintain its competitive advantage over time. This may be achieved if the company uses these vital resources in its product markets in a sufficient and efficient way. The idea of resource-based view has experienced substantial development and has been widely applied in both national and industrial contexts, such as in the domains of international commerce, marketing, entrepreneurship, and human resources (Fahy & Smithee, 2009). This theory aligns with the fourth variable of the researcher's study on the factors influencing the performance of insurance companies in Nairobi County, Kenya. The study focuses on the importance of an insurance company maintaining sufficient capital resources to meet its financial obligations on time and sustain its operations for improved performance and sustainability.

2.1.1.3 Customer Perceived Value Theory

The customer perceived value theory explains why life insurance is growing slowly. The discrepancy between a potential customer's assessment of an offering's total costs and advantages and their perception of the available options is known as customer perceived value. CPV is equal to the sum of the customer's advantages and costs. The perceived monetary value of the collection of functional, economic, and psychological advantages that consumers anticipate from a particular market offering due to the associated goods, services, employees, and reputation is known as the total customer benefit. The perceived total cost of a customer's evaluation, acquisition, use, and disposal of a particular market product includes financial, time, energy, and psychological expenses (Kotler & Armstrong, 2010). Since an organization can only ever develop value from its current and potential consumers, the authors clarify that cultivating a devoted client base is the foundation of any successful firm. Instead of using the traditional organization chart, they suggest adopting the more contemporary, customer-oriented organization chart.

The modern customer-oriented organization chart is inverted, with customers at the top, followed by frontline employees who interact with customers, middle managers who assist the front line employees, and top management, whose role it is to appoint and assist middle managers, Kotler and Armstrong (2010) explained. The traditional organization chart is a pyramid with the president at the top, management in the middle, frontline employees, and customers at the bottom. For the most part, life insurance businesses have used the conventional organizational chart. This indicates that the poor perceived value among customers has continued to hinder the expansion of life insurance. Every business's core objective is to cultivate a devoted clientele. Gaining, retaining, and expanding clientele is the key to business success. Consumers need to believe they are receiving value for their investment since they are more knowledgeable and educated than before (Kotler & Armstrong, 2010). This idea is pertinent to the study because it clarifies why consumers select the life insurance industry and why they are prepared to pay a premium to be covered. The researcher was therefore able to evaluate the variables influencing the performance of the life insurance business in an insurance firm using this theory.

2.1.1.4 Theory of Performance

The study's genesis is in the philosophy of act, which constructs and connects six fundamental ideas to create a framework for understanding performance and performance enhancements (Borman & Motowidlo, 1993). To succeed is to produce desired results. A player can be an individual or a group of individuals working together. A performance's level indicates where it is on the route toward developing performance. The six aspects that make up the current performance level are as follows: personal factors, fixed factors, identity, context, knowledge, and skill levels. There are three suggested axioms for efficient performance enhancements. These include the attitude of the performer, being immersed in a stimulating setting, and participating in reflective practice. The concept of presentation has two dimensions. Borman and Motowidlo (1993) make a distinction between task and contextual performance at the most basic level. Task performance is the skill with which a person carries out tasks that support the "technical core" of the company. This input might come from direct sources (like manufacturing workers) or indirect sources (like supervisors or staff members).

Activities that support the organizational, social, and psychological environments in which organizational goals are pursued but do not add to the technical core are referred to as contextual performance. In addition to actions like supporting colleagues or being a dependable team member, contextual performance also involves offering recommendations for ways to enhance work processes (Borman & Motowidlo, 1993). According to Motowidlo et al. (1997), there are three fundamental presumptions related to the distinction between task and contextual performance: Task performance is related to ability, whereas contextual performance is related to personality and motivation; (3) task performance is more prescribed and represents in-role behavior, whereas contextual performance is more discretionary and extra-role; and (4) activities relevant for task performance vary between jobs, whereas contextual performance activities are relatively similar across jobs. Because it covers both performance and the elements that lead to performance, the theory of performance is pertinent to our investigation. Organizational performance is said to be significantly influenced by the ability and management of its workforce. Therefore, human capabilities, managerial capabilities, and environmental factors all affect how well insurance businesses succeed in any given nation.

2.1.1.5 Fraud Scale Theory

Puspasari (2015) identifies nine motivators of fraud, including an excessive desire for personal gain and close relationships with clients, living above one's means, a high percentage of personal debt, compensation that is out of scale for the work, exceeding expectations placed on oneself by friends and family, and a strong sense of challenge or wheeler-dealing to get around established systems. The author developed a scale for measuring fraud that takes into account situational pressures to gauge current environmental issues, debts or losses people incur, and opportunities lost due to poor judgment and personal integrity (which is impacted by individual behavioral norms). Thus, this theory aligns with the researcher's second variable on claims processing in this study on factors influencing insurance companies' performance, where frauds in claims processing result in significant losses for the company that could have been invested in more profitable ventures that would have improved the company's sustainability and bottom line while fostering the expansion and success of insurance firms.

2.1.1.6 Stewardship Theory

Donaldson and Preston (2005) assert that the agency theory and the stewardship theory also referred to as the stakeholder's theory adopt distinct perspectives. This thesis is predicated on the idea that organizations function to further societal goals beyond maximising investors' returns. According to this idea, organizations are social entities that have an impact on the well-being of different stakeholders, who are people or groups that engage with a business and either positively or negatively impact the accomplishment of the organization's goals. According to this view, an organization's ability to create value for both stockholders and stakeholders (stakeholders) is a key indicator of success. Donaldson and Davis (2011) argued that stewardship theory argues that incorporating corporate governance will improve accountability, transparency, and responsiveness in the management of investors' business ventures while lowering agency costs and strengthening the role of stewards in businesses and better protecting investors' interests. In this analysis of the variables affecting the performance of insurance businesses, the researcher's third variable management is supported by this hypothesis. In their capacity as good stewards, the management of the insurance firms is required to maximize profits from the

investments made by the shareholders and to effectively manage the company's resources for enhanced performance in order to support sustainability.

2.1.2 An Overview of Insurance Companies in Nepal

In our country, the idea of insurance has roots in the ancient 'Guthi Systems' and the joint family culture, which have historically offered security and support to individuals and families during times of need. As economic and social conditions have evolved, along with the growing complexities of emerging small-scale industries, there has been a significant demand for a domestic insurance company to provide coverage against potential losses from industrial mishaps (Risal, 2021).

The need for insurance in our country became apparent with the growth of trade, commerce, and industry. However, there was no organized insurance system in Nepal until 1947. Society was primarily agrarian, and the socio-economic structure addressed community issues and emergencies collectively.

Before the establishment of insurance companies in Nepal, several broker offices of Indian firms operated in the country. The first insurance company in Nepal, Nepal Malchalani Tatha Beema Company Ltd, was founded in 1947 as a subsidiary of Nepal Bank Limited, the nation’s first commercial bank. Its primary purpose was to transport goods imported by the bank and manage those goods securely. The company also handled the bank's cash transactions. Eventually, it rebranded as Nepal Insurance and Transport Company Ltd. (Ghimire, 2013).

The primary goals of Nepal Insurance and Transport Company Ltd. were transporting goods and issuing insurance policies, but it eventually focused mainly on the insurance sector. Consequently, it changed its name to Nepal Insurance Company Limited. Although established to provide insurance, the company was hesitant to accept clients other than Nepal Bank Ltd. Meanwhile, foreign (Indian) insurance companies continued to conduct business through their broker offices in Kathmandu and other major cities in Nepal, both before and after the formation of Nepal Insurance Company Limited (Poudel, 2019).

Following the restoration of democracy in 1990, the insurance landscape began to evolve alongside other societal changes. To address this shifting environment, the old Insurance Act of 1968 was replaced by the new Insurance Act of 1992 (Beema Ain 2049 B.S.). The preamble of this act outlines its objectives clearly. An Insurance Board was established to organize, regulate, and promote the insurance industry. To fulfill the goals set out in the preamble, Beema Samiti (Insurance Board) was created as an autonomous entity under the 1992 Insurance Act, operating under government oversight. With the introduction of the Insurance Act of 1992, the number of private insurance companies increased, and currently, there are a total of 30 companies offering both life and non-life insurance in Nepal.

2.1.2 Concept of Insurance Companies and their Performance

Insurance businesses are primarily divided into two categories: non-life and life insurance. Non-life or general insurance offers a variety of products, such as credit insurance, bonds, surety bonds, auto insurance, homeowners insurance, fire insurance, accident coverage, oil and gas insurance, contractors' all hazards, and engineering risks. However, these do not include life insurance. Life insurance is a contract between an insurance company and a policyholder, where the company promises to pay a specified amount upon the death of the insured person. In return, the policyholder pays a regular fee known as the premium. Life insurance encompasses products such as annuities, health insurance, pension plans, and group life insurance. If a covered event occurs, the designated beneficiary receives the corresponding benefits.

Performance can be categorized into two types: non-financial and financial performance. The first aspect, productivity, measures how effectively an organization transforms inputs into outputs. The second aspect is financial performance, which pertains to factors reflected in financial statements and is characterized by a company’s earnings exceeding its costs (Almajali et al., 2012). The concept of profitability combines "profit" and "ability." It is crucial to differentiate between profit and profitability. In accounting terms, profit is calculated by subtracting all costs from total revenue, while profitability refers to the ability of an investment to generate a return. According to Ramlall (2009), profits are represented in monetary

terms. In simple terms, profit is the difference between what is earned and what is spent. Revenue and expenses are influenced by industry characteristics, macroeconomic factors, and specific company attributes. Profit is crucial for the survival of most businesses and is essential for enhancing competitiveness in the market. It also provides a source of dividends and offers security to both investors and management against insolvency. As increasing shareholder value is a key goal of financial management, profitability stands out as one of the most important objectives in this field.

According to Swiss (2008), profit is primarily determined by underwriting performance losses and expenses, which are influenced by factors such as product pricing, risk selection, claims management, marketing, and administrative costs. In contrast, investment performance relies on asset allocation, management, and leverage. An insurance company's earnings consist of two key components: premium (or underwriting) income and investment income. Underwriting income comes from the issuance of insurance policies, while investment income represents a significant portion of an insurer's revenue. Overall, a company's profitability serves as an indicator of its performance.

Most empirical reviews suggest that the profitability of insurance firms is typically assessed through net premiums from underwriting operations, annual turnover, return on investment, and return on equity. These metrics can be classified into two categories: investment performance metrics and profit performance metrics. However, many experts in the insurance field agree that return on assets (ROA) is the most critical indicator of a company's profitability. According to Boadi et al. (2013), ROA reflects how effectively a business is managing its asset investments and generating profits, making it a vital measure of profitability. The return on assets (ROA) ratio measures profit margin in relation to the total assets invested by a company. It is linked to the asset management category, with a higher percentage indicating better profitability, as it shows that the business is effectively utilizing its resources to generate revenue. According to Malahim and Khatib (2016), ROA illustrates to investors how effectively a company uses its assets to create revenue. Additionally, it serves as a key indicator of overall productivity and reflects the proportion of profit generated relative to total assets.

2.1.3 Financial Performance Indicators

The main objective of insurance firms is to generate profit, and all strategies and actions are aimed at achieving this goal. However, this doesn't mean that insurance companies lack other objectives; they may also pursue various commercial and social aims. Nevertheless, this study focuses primarily on profitability. To evaluate the profitability of insurance firms, several ratios are employed, with the most significant being Return on Equity (ROE), Return on Assets (ROA), and Net Interest Income (Garrinson & Norren, 2005).

Return on Equity (ROE) is a financial ratio that measures a company's profit margin relative to the total amount of shareholder equity on the balance sheet. It represents what investors look for when they make an investment. A company that can generate funds internally is likely to achieve a high ROE, indicating greater profitability. ROE is calculated by dividing net revenue after taxes by total equity capital, reflecting the return that investors in insurance firms receive on their capital contributions. It serves as an indicator of management's efficiency in utilizing shareholders' funds. Thus, a higher ROE suggests that management is more effective in using shareholder capital (Garrinson & Norren, 2005).

Another key metric that indicates an insurance company's profitability is Return on Assets (ROA). This ratio compares income to total assets and assesses how effectively the management can generate profit using available resources. In other words, it reflects the efficiency with which the company's resources are utilized to generate revenue. ROA also shows how well management leverages all institutional resources to produce net income. A higher ROA signifies that the company is using its resources more effectively.

Return on Investment (ROI) is calculated by dividing net profit after taxes by the total amount of paid-in capital. This ratio evaluates how effectively the company utilizes the invested capital. In other words, it reflects the company's ability to generate the expected return based on how shareholders manage their invested resources (Glautier & Underdown, 2001).

2.1.4 Factors of Financial Performance

2.1.4.1 Firm Specific Factors

Size of the Companies

Most literature uses total assets to examine how size influences the financial performance of insurance companies. However, there is some inconsistency in the empirical evidence regarding the relationship between financial performance and size. It has been found that financial performance is indeed linked to company size. Research by Cummins and Nini (2002) indicates that larger companies tend to be more efficient in generating revenue and managing costs, potentially leading to higher premium growth. Conversely, a study of UK firms by Hardwick and Adams (1999) found a negative correlation between firm size and financial performance. In a similar vein, Swiss (2008) found that larger firms tend to grow faster than smaller ones, and younger firms outpace older ones in terms of growth, based on his research into the relationships between company characteristics such as size, age, location, industry group, financial performance, and growth. Additionally, Malik (2011) conducted a study in Pakistan that revealed a statistically significant positive correlation between a company's size and age and its financial performance. Ramlall (2009) noted that size reflects the notion that larger businesses can benefit from economies of scale in transactions, resulting in higher profit levels compared to smaller firms. A key issue influencing corporate policy is determining which size optimizes financial performance.

Omondi and Mutur (2013) found evidence of a generally positive relationship between a company's increasing size and its financial performance. Previous research by Hardwick and Adams (1999) and Ramlall (2009) supports the idea that firm size significantly affects variations in operating performance and business survival. They argue that a company's size plays a crucial role in determining its competitive advantage, as larger firms tend to be more efficient and possess better resources to weather economic downturns.

Company Age

In the early years of operation, newly established businesses often struggle to be highly profitable, as they focus more on increasing their market share than on improving performance (Almajali et al., 2012). Sambasivam and Ayele (2013)

highlight a positive and significant relationship between a company's performance and its age. Dietrich and Wanzenried (2009) suggest that older businesses tend to be more successful due to their longer history and ability to build a strong reputation. Additionally, research by Vigaykumar and Kadirvelu (2004) indicates that a company's age is a key factor influencing its financial performance in the insurance sector.

Leverage

Profitable companies are encouraged to use debt financing to benefit from the tax shield it provides. In contrast, the goal of the capital structure pecking order theory is to minimize inefficiencies in investment decisions. According to this theory, firms prefer internal financing over external financing due to the costs associated with asymmetric information. When external funding is necessary, companies typically opt for debt over equity because of the lower information costs involved. The pecking order hypothesis suggests that since the debt ratio results from external financing needs, there is no optimal capital structure. In the insurance sector, leverage can be measured as the ratio of debt to equity or reserves to surplus, with an insurer's risk potentially increasing in proportion to its debt. Capital structure literature suggests that a company's value will increase with leverage up to an optimal point, after which further increases in leverage can lead to a decline in value. For instance, research by Chen and Wong (2004) in Canada, Sambasivam and Ayele (2013) in Ethiopia, and Batool and Sahi (2019) in the UK found a statistically significant negative correlation between a firm's performance and its debt levels. Gockov and Kamenjarska (2021) argued that insurance companies with lower leverage typically report higher Return on Assets (ROA) but lower Return on Equity (ROE). They noted that the relationship between leverage and performance has been extensively studied to support capital structure theories, emphasizing that the risks associated with high leverage are often overlooked in ROE analyses.

Liquidity

From the perspective of insurance companies, liquidity refers to the insurer's ability to meet its obligations, such as operating expenses and claims payments, as they come due. An increase in the liquidity ratio suggests that the company has more current assets available, which could be directed toward profitable opportunities. The main

sources of liquidity for an insurer include cash flow, primarily from premium and investment income, as well as asset sales (Murigu, 2015). However, empirical data on liquidity has shown inconsistent results. For example, Chen and Wong (2004) identified liquidity as a significant predictor that is negatively correlated with the financial health of insurance companies. Similarly, Mehari and Aemiro (2013) highlighted that investment, current capital, and liquidity are key factors impacting a company's performance. In their research on Sub-Saharan nations, Flamini et al. (2009) found a strong negative correlation between firm financial performance and liquidity. In contrast, a study by Ahmed et al. (2011) indicated a statistically insignificant correlation between Return on Assets (ROA) and liquidity. Furthermore, the concept of agency costs suggests that higher asset liquidity may lead to increased agency costs for owners, as managers could exploit the liquidity of the assets for their own benefit (Adams & Buckle, 2000).

Firm Growth

It is expected that the growth of insurance firms in Ethiopia will positively correlate with their financial performance, measured by the percentage change in total assets or, at times, the percentage change in premiums. Firms that accumulate assets over time are more likely to achieve profitability, provided they can leverage external opportunities effectively. Empirical studies by Mwangi and Murigu (2015) in Kenya and Ahmed et al. (2011) in Pakistan found a positive and statistically significant relationship between the financial performance and growth of insurance companies.

Tangibility of Assets

Research often uses the ratio of fixed assets to total assets to measure the tangible nature of a company's assets. A firm with a higher proportion of fixed assets typically experiences better financial performance, as these assets hold greater future value. A recent study by Ahmad et al. (2011) examined the impact of various business-level characteristics on the performance of public hospitals in India over a seven-year period. The study selected size, financial performance, age, risk, growth, and tangibility as explanatory variables, with Return on Assets (ROA) serving as the dependent variable. The results of the OLS regression analysis indicated that, although Return on Assets (ROA) has a statistically insignificant relationship with asset tangibility, leverage, size, and risk are the three most significant factors

influencing a firm's performance. In contrast, Kanbiro and Ayneshet (2019) found a strong positive correlation between financial performance and asset tangibility, arguing that larger and more established companies tend to have higher levels of fixed asset accumulation.

2.1.4.2 Macroeconomic Factors

Inflation

Inflation is a key indicator of economic health that affects the financial performance of insurance companies. In an environment of high inflation, interest rates tend to rise, which can lead to increased income (Bawa & Chattha, 2013). Doumpos and Gaganis (2012) examined the nonlife insurance sector and found that firm performance is influenced by inflation. Browne and Hoyt (1995) identified several significant market, insurer, and economic factors affecting life insurer performance, showing that firm performance is positively related to bond portfolio returns, business size, and liquidity, while negatively correlated with unexpected inflation. Additionally, Chen and Huang (2001) established a relationship between macroeconomic conditions and premium receipts in the life insurance market.

Economic Growth Rate

Real GDP growth is a macroeconomic indicator expected to positively influence insurers' financial performance, as it enhances income levels and living standards, thereby increasing the purchasing power of the population. Doumpos and Gaganis (2012) examined the performance of the non-life insurance industry and found that macroeconomic factors, such as GDP, impact companies' performance. Furthermore, Grace and Hotchkiss (1995) utilized a co-integration approach to demonstrate a relationship between the insurance industry's performance and long-term general economic conditions. Additionally, their research indicates that interest rates negatively impact underwriting profits, while real GDP shows a negative relationship with premiums. Established literature on the connection between economic growth and financial sector performance suggests that increases in GDP per capita are likely to benefit company performance. The key finding of the study is that economic expansion has a positive and significant effect on business earnings.

2.2 Empirical Review

Mwangi and Murigu (2015) analyzed the determinants of financial performance in general insurance companies in Kenya. Therefore, the objective of the study was to identify the variables influencing Kenyan general insurers' profitability. The study took into account all of Kenya's general insurance businesses for the years 2009–2012 and used multiple linear regression with return on assets as the dependent variable. Leverage, equity capital, managerial competency index, and profitability were all positively correlated with one other; size and ownership structure were adversely correlated. There was no correlation found in the study between age, underwriting risk, liquidity, retention ratio, and performance. The study suggests that in order for Kenyan general insurers to function more effectively, they need raise equity capital, leverage, and employee quality.

Malahim and Khatib (2016) analyzed the financial performance for Jordan Islamic insurance companies. The main objective of the research was to examine the factors that affected Islamic insurance businesses' financial performance in Jordan from 2008 to 2015 by examining the effects of both the internal and external business environments. Multiple regression analysis and correlation were utilized in this study to examine the data. The results of the research showed that a company's size had a positive and significant impact on its ability to make money for Islamic insurance companies. Moreover, the financial performance was positively impacted by the debt ratio and inflation rate, however these impacts were not statistically significant. Furthermore, the financial performance of Islamic insurance companies operating in Jordan was negatively impacted, however somewhat, by the GDP and unemployment rate. The experts recommend that Islamic insurance companies boost the quality of their assets and return on assets to reach high levels of financial success.

Tesfaye (2016) analyzed of factors affecting financial performance evidence from selected Ethiopian insurance companies. The main objective of the study was to investigate the factors affecting the financial performance of insurance businesses in Ethiopia. Return on asset, a measure of financial success, was used to classify these factors into three categories: macroeconomic, industry-specific, and firm-specific. Purposive sampling, an explanatory study design, and a quantitative method were employed by the researcher. secondary data obtained from 12 of the 17 insurance

companies and the National Bank of Ethiopia (NBE) between 2011 and 2016. For data analysis, descriptive statistics and the Random Effect econometric model were used. The study showed that while solvency margin and loss ratio had a negative correlation and significant effect on financial performance, prior profit performance and capital volume had a positive and significant impact. In contrast to the lag inflation and exchange rate, which had a negative and large impact on ROA, the lag GDP rate and current inflation have a positive and significant impact.

Deyganto and Alemu (2019) examined factors affecting financial performance of insurance companies operating in Hawassa city administration, Ethiopia. This study set out to look at the variables influencing the financial performance of insurance providers in Ethiopia's Hawassa city administration. Because the data needed to create the study's report were quantitative in nature, the researchers used a mixed research technique in conjunction with a causal research design in this investigation. In order to fulfill the purpose of this study, financial accounts and relevant published and unpublished documents were reviewed in order to gather secondary data. The researchers used SPSS version 20.0 to analyze the data using the ordinary least squares model. The results of the research showed that underwriting, premium growth, solvency ratio, GDP growth rate, and inflation rate all had significant effects on the financial performance of the insurance companies doing business with the Hawassa City Administration. In contrast, the company's size, interest rate, or reliance on reinsurance had no significant impact on the financial performance of the Hawassa municipal administration's insurance company.

Bishaw et al. (2019) analyzed determinants of financial performance of insurance companies in Ethiopia. This study looked at what influences the financial performance of insurance companies in Ethiopia using secondary data from eleven-year financial statements of nine insurance firms, statements from 2006 to 2016, and the balance sheets of insurance companies from NBE. The data analysis techniques used in this study were correlation analysis and multiple regression analysis. The study's findings demonstrated that underwriting risk had a statistically significant detrimental effect on insurers' financial performance. Additionally, they demonstrated a significant association between business size and financial performance, with insurers' financial performance being positively impacted by larger firms. According

to the report, insurance companies can enhance their underwriting performance by implementing strategies such as optimizing product selection, reducing claims leakage, and completing a suitable pre-risk survey on the insurable interest prior to accepting the risk.

Ishtiaq and Siddiqui (2019) investigated factors affecting financial performance of life insurance sector in Pakistan. The aim of this study was to examine the variables influencing the financial performance of Pakistan's life insurance market. While sector Return on Assets (ROA) has been used to evaluate performance, potential internal and external factors such as liquidity, net premium, and premium growth, underwriting risk, debt to equity, insurance leverage, tangibility, equity capital, capital surplus, GDP, inflation, and market share have been considered. The information was obtained from 09 life insurance firms between 2008 and 2017, comprising 1 public and 8 private life insurance companies. Two of the companies in these observations only deal with sophisticated life insurance, while the other companies either have conventional bases or both. The generalized approach of the moment is utilized to estimate the findings, and panel regression has been applied to panel the ordinary least square regression model for analysis. The results of the research found that while the other independent variables liquidity, underwriting risk, debt to equity, equity capital, capital surplus, and inflation were positively and significantly correlated with the financial performance of Pakistani Life Insurance Company, tangibility, market share, net premium, insurance leverage, and GDP were not.

Pradhan and Pokharel (2020) analyzed impact of firm specific and macroeconomic factors on the performance of Nepalese insurance companies. This study looked at how Nepalese insurance businesses performed in relation to macroeconomic and firm-specific factors. The study's foundation is secondary sources of information gathered from 16 insurance companies in Nepal between 2007/08 and 2014/15, totaling 128 observations. The Insurance Board of Nepal's Statistics Report and the yearly reports of a few chosen Nepalese insurance companies are the sources of the data. To determine the importance and influence of firm-specific and macroeconomic factors on the performance of insurance companies in Nepal, several regression models are developed. The study found that the age, size, and liquidity of insurance companies in Nepal were strongly connected with their performance. The GDP growth rate,

leverage, and tangibility all demonstrated positive correlations with the prosperity of Nepalese insurance companies. The study also revealed a negative relationship between inflation and the performance of insurance companies in Nepal. The regression study revealed that the following factors were helpful to the performance of insurance enterprises in Nepal: age, size, liquidity, leverage, tangibility, and GDP growth rate. Only the following characteristics of beta coefficients size, leverage, liquidity, and tangibility make them significant at the five percent significance level.

Meher and Zewudu (2020) investigated determinants of firm's internals and macroeconomic factors on financial performance of Ethiopian insurers. The purpose of the study was to look into the relationship between certain internal and external variables and the financial performance of Ethiopian insurance companies. This study takes a quantitative approach, using inferential statistics on a balanced panel of nine insurance companies during a fifteen-year period (2002–2016). In explanatory analysis, the relationship between dependent and independent variables is investigated using Pearson's correlation and the OLS regression model. This study found that while leverage, liquidity, and underwriting risk showed a negative but significant correlation with asset returns, GDP per capita and company size showed a positive and substantial link. The expansion of branches and better living conditions for individuals are two ways that asset growth boosts its financial performance.

Legass et al. (2021) analyzed impact of financial factors on financial performance evidence from insurance companies in Ethiopia. This study aimed to investigate the effects of financial factors on the financial performance of eleven insurance companies in Ethiopia that were specifically chosen. Explanatory research strategy using a quantitative technique and panel data type was employed by the researcher for this study. The secondary data used in this study were gathered from Ethiopia's national bank. In terms of sampling methodology, the researcher employed purposive sampling, which was based on data availability, insurances' year of establishment, and their operational lifespan. Lastly, the EView10 software program was used to examine the data. In order to perform the regression, the random effect regression model was selected. This study found that while other factors like leverage, underwriting risk, and inflation rate had significant negative effects on the financial performance of Ethiopian insurance companies, the liquidity ratio, premium growth,

and GDP had positive and statistically significant effects on the financial performance of Ethiopian insurance companies.

Tsvetkova et al. (2021) analyzed factors affecting the performance of insurance companies in Russian federation. The main objective of the research was to look into the factors that affect insurance the financial performance of companies across different nations because there weren't many studies looking into the factors affecting insurers' performance in the Russian Federation. Descriptive analysis, correlation analysis, multiple linear regression, and component analysis were used to examine the financial secondary data of 45 insurance companies and organizations that continued to operate continuously in the Russian Federation between 2012 and 2018. The study found a positive relationship between the size of the company, its return on equity (ROE), liquidity ratio, and claim ratio and returns on assets (ROA). The premium growth rate and inflation had a negative correlation with ROA.

Jaishi and Poudel (2021) examined impact of firm specific factors on financial performance: a comparative study of life and non-life insurance companies in Nepal. The main objective of the study was to examine the makeup of firm-specific traits and how they affect the financial performance of life and non-life insurance businesses in Nepal. This study used both the descriptive and the causal-comparative research designs. The study uses a panel data set of 14 insurance companies that are listed on the Nepal Stock Exchange (NEPSE) and includes 140 observations from 2009–10 to 2018–19. Both descriptive and inferential analysis are used in the study. The study employed inferential statistics, such as regression analysis and correlation, and descriptive statistics, such as mean and standard deviation. The study found total debt ratio, equity to the total assets ratio, leverage, firm size, liquidity and tangibility were the significant factors in determining the financial performance of Nepal’s insurance companies.

Kamau et al. (2021) examined financial performance of insurance firms. Does leverage and liquidity matter? evidence from Kenya. This study set out to find out how company qualities affected Kenyan insurance companies' financial performance. The tradeoff theory served as the study's foundation. The correlation study design was chosen, and positivism was the research ideology used. The Association of Kenya

Insurers (AKI), the Insurance Regulatory Authority (IRA), and the websites of specific firms were the sources of the secondary data used in the study. The study's target group consisted of 52 insurers that conducted business in Kenya over a ten-year period (2010-2018). The Hausman test was utilized to establish and evaluate the hypothesis in the analysis of the unbalanced panel data utilizing the Random and Fixed effect model. The study showed that the financial performance of Kenyan insurance companies was significantly impacted negatively by leverage and liquidity. According to the report, insurance companies should adopt workable financial leverage techniques to increase their bottom line. Furthermore, they must manage liquidity well in order to optimize the company's worth and financial outcomes.

Sugiharto (2022) investigated micro and macroeconomic determinants of the financial performance of life insurance firms in Indonesia: an empirical evidence. The main objective of the study was to investigate how macro and microeconomic factors affected the financial performance of life insurance firms. For the years 2011 through 2018, a predetermined sample of thirty life insurance firms was created using the Indonesia Financial Service Authority (IFSA) database. Regression analysis on panel data was used to test the proposed theories. The best model was determined to be the random effect model, which shows that variations in the traits of the life insurance companies under study had an impact on the dependent variable, which in this case was the return on equity. The result showed that economic growth, the expense ratio, and the current ratio all have varying effects on the financial performance, or return on equity, in a sequential manner.

Barakat et al. (2022) analyzed of the factors affecting the financial performance of insurance companies listed on the Palestine stock exchange. This study set out to look at the variables influencing the financial performance of Palestine's insurance companies. Seven insurance businesses listed on the Palestine Exchange between 2010 and 2019 were the focus of the entire research population. The financial performance was represented by two models that the researchers developed using multiple linear regression analysis. The size of the board of directors, the solvency margin, the state's legal system, and the company's size all had a favorable and statistically significant effect on the return on assets, according to the findings. Each of the claims loss ratios, the reliance on the four main auditing firms, and the board

members' ownership of the return on assets were all negatively and statistically significantly impacted. There was no statistically significant impact of the audit committee or the dependability of reinsurance on the return on assets. The findings demonstrated that the solvency margin and firm size had a positive, statistically significant effect on the return on equity. The findings showed that the Audit Committee and the claims loss ratio had a statistically significant negative effect on the return on equity. The return on equity was not significantly impacted by factors such as reinsurance dependence, reliance on the four major auditing firms, the state's legal system, the size of the board of directors, or board member ownership.

Msomi and Nzama (2023) analyzed firm-specific factors affecting the financial performance of insurance companies in South Africa. The main objective of the research was to find out how firm-specific characteristics affected the financial performance of insurance businesses in South Africa. This research examined the 2008–2019 performance of thirty-six publicly traded insurers with definable markets. Multiple regression analysis and correlation were utilized in this study to examine the data. The results of this study showed that the financial performance of South African insurance businesses was not statistically significantly impacted by leverage or liquidity ratios. Tangibility of assets and ROA as well as premium growth rate and ROA were shown to be negatively and statistically insignificantly correlated. The size and ROA showed a positive but minor link, but the liquidity ratio and ROA showed a strong positive and significant relationship. There was a substantial negative correlation between leverage ratio and ROA.

Upadhyay and Sitlani (2023) analyzed a study of determinants and their impact on financial performance of private non-life insurance industry in India. The goal of the study was to determine which internal financial factors affect the financial performance of Indian private non-life insurance companies and to investigate the effects of those factors on performance. Financial records from fifteen private general insurance businesses are gathered between 2013 and 2019 in order to meet the study's goals. A thorough assessment of the literature led to the selection of twelve independent variables, with return on assets (ROA) serving as a stand-in for profitability and performance metrics. The data are subjected to panel data regression analysis, and the Fixed Effects Model (FEM) was utilized to examine the influence of

independent factors on return on assets (ROA). The study found that the age of the company, claims ratio, management expense ratio, premium growth, retention ratio, and technical reserve ratio are statistically significant predictors of the financial performance of the respondent organizations. The profitability of responding organizations was negatively correlated with the claims ratio, management expense ratio, premium growth, and retention ratio; nevertheless, the profitability of the business was positively correlated with the age of the company and its technical reserve ratio.

Msomi (2023) examined macroeconomic and firm-specific determinants of financial performance: evidence from non-life insurance companies in Africa. This study employed 121 listed non-life insurance companies from 48 African countries to assess firm-specific and macroeconomic financial performance determinants from 2008 to 2019. Panel data with 1452 observations were analyzed using ordinary least squares and two-step System Generalized Method of Moments estimators. The study showed that the statistically significant factors influencing the financial performance of non-life insurance companies in Africa are lagged return on assets, equity capital, investment capability, and gross domestic product, even though operational efficiency, leverage, and equity capital had the opposite significance.

Wosti and Pradhan (2023) analyzed the effect of firm specific factors and reinsurance on performance of Nepalese insurance companies. The main objective of the research was to investigate how Nepalese insurance companies' performance was impacted by firm-specific characteristics and reinsurance. The study's secondary data, which included 124 observations from 16 insurance companies between 2013–14 and 2020–21, served as its foundation. To determine the importance and impact of firm-specific characteristics and reinsurance on the performance of Nepalese insurance companies, regression models were estimated. The study found that company size, liquidity, net claim ratio, and net commission ratio had a negative effect on the profitability of Nepalese insurance companies as measured by return on equity and return on assets. However, the study showed that the tangibility of assets and the ratio of ceded reinsurance had a positive impact on the performance of insurance companies as indicated by return on equity and return on assets.

Table 1

Summary of Empirical Review

S. N.	Author	Topic	Objectives	Methodology	Findings
1	Mwangi and Murigu (2015)	The determinants of financial performance in general insurance companies in Kenya	The objective of the study was to identify the variables influencing Kenyan general insurers' profitability	The study used multiple linear regression	The study showed that leverage, equity capital, managerial competency index, and profitability were all positively correlated with one other; size and ownership structure were adversely correlated. There was no correlation found in the study between age, underwriting risk, liquidity, retention ratio, and performance.
2	Malahim and Khatib (2016)	Analyzing the financial performance for Jordan Islamic insurance companies	The main objective of the research was to examine the factors that affected Islamic insurance businesses' financial performance in Jordan from 2008 to 2015	Multiple regression analysis and correlation were utilized in this study to examine the data	The results of the research showed that a company's size had a positive and significant impact on its ability to make money for Islamic insurance companies. Moreover, the financial performance was positively impacted by the debt ratio and inflation rate, however these impacts were not statistically significant.
3	Tesfaye (2016)	Analysis of factors affecting financial performance evidence from selected Ethiopian insurance companies	The main objective of the study was to investigate the factors affecting the financial performance of insurance businesses in Ethiopia	For data analysis, descriptive statistics and the Random Effect econometric model were used	The study showed that while solvency margin and loss ratio had a negative correlation and significant effect on financial performance, prior profit performance and capital volume had a positive and significant impact. In contrast to the lag inflation and exchange rate, which had a negative and large impact on ROA, the lag GDP rate and current inflation have a positive and significant impact.
4	Ishtiaq and Siddiqui (2019)	Factors affecting financial performance of life	The aim of this study was to examine the variables influencing	Panel regression has been applied to panel the	The results of the research found that while the other independent variables liquidity, underwriting risk, debt to equity, equity

		insurance sector in Pakistan	the financial performance of Pakistan's life insurance market	ordinary least square regression model for analysis	capital, capital surplus, and inflation were positively and significantly correlated with the financial performance of Pakistani Life Insurance Company, tangibility, market share, net premium, insurance leverage, and GDP were not.
5	Bishaw, Lemie and Tulu (2019)	Determinants of financial performance of insurance companies in Ethiopia	This study looked at what influences the financial performance of insurance companies in Ethiopia	The data analysis techniques used in this study were correlation analysis and multiple regression analysis	The study's findings demonstrated that underwriting risk had a statistically significant detrimental effect on insurers' financial performance. Additionally, they demonstrated a significant association between business size and financial performance, with insurers' financial performance being positively impacted by larger firms.
6	Deyganto and Alemu (2019)	Factors affecting financial performance of insurance companies operating in Hawassa city administration, Ethiopia	The main purpose of the study was to examine the variables that influencing profitability of Nepalese insurance companies.	This study used multiple regression analysis to analyze the data.	The results of the research showed that underwriting, premium growth, solvency ratio, GDP growth rate, and inflation rate all had significant effects on the financial performance of the insurance companies doing business with the Hawassa City Administration. In contrast, the company's size, interest rate, or reliance on reinsurance had no significant impact on the financial performance.
7	Pradhan, R. S., & Pokharel, G. (2020).	Impact of firm specific and macroeconomic factors on the performance of Nepalese insurance companies.	This study examined the impact of firm specific and macroeconomic factors on the performance of Nepalese insurance companies.	The multiple regression models are estimated to test the significance	The study showed that age, size and liquidity were positively related to performance of Nepalese insurance companies. Similarly, there was positive relationship of leverage, tangibility and gross domestic product (GDP) growth rate with performance of Nepalese insurance companies. The study further showed that inflation was negatively related to performance of Nepalese insurance

					companies.
8	Meher and Zewudu (2020)	Determinants of firm's internals and macroeconomic factors on financial performance of Ethiopian insurers	The purpose of the study was to look into the relationship between certain internal and external variables and the financial performance of Ethiopian insurance companies	Thia study employed a Pearson's correlation and the OLS regression model	This study found that company size and the liquidity ratio are positively associated with profitability, their impacts are not statistically significant. On the contrary, the loss ratio, liabilities ratio, insurance leverage ratio, and to a less extent, the company age have negative effects on the profitability of Saudi insurance companies.
9	Legass, Mulatie and Shikur (2021)	Impact of financial factors on financial performance evidence from insurance companies in Ethiopia	This study aimed to investigate the effects of financial factors on the financial performance of eleven insurance companies in Ethiopia	In order to perform the regression, the random effect regression model was selected	This study found that while other factors like leverage, underwriting risk, and inflation rate had significant negative effects on the financial performance of Ethiopian insurance companies, the liquidity ratio, premium growth, and GDP had positive and statistically significant effects on the financial performance of Ethiopian insurance companies.
10	Tsvetkova et al. (2021)	Factors affecting the performance of insurance companies in Russian federation	The main objective of the research was to look into the factors that affect insurance the financial performance of companies.	Descriptive analysis, correlation analysis, multiple linear regression, and component analysis were used.	The study found a positive relationship between the size of the company, its return on equity (ROE), liquidity ratio, and claim ratio and returns on assets (ROA). The premium growth rate and inflation had a negative correlation with ROA.
11	Jaishi and Poudel (2021)	Impact of firm specific factors on financial performance : A comparative study of life and non-life insurance companies in Nepal	The main objective of the study was to examine the makeup of firm-specific traits and how they affect the financial performance of life and non-life insurance	The study employed inferential statistics, such as regression analysis and correlation, and descriptive statistics, such as mean and standard	The study found total debt ratio, equity to the total assets ratio, leverage, firm size, liquidity and tangibility were the significant factors in determining the financial performance of Nepal's insurance companies.

			businesses in Nepal	deviation.	
12	Kamau et al. (2021)	Financial performance of insurance firms. Does leverage and liquidity matter? Evidence from Kenya	This study set out to find out how company qualities affected Kenyan insurance companies' financial performance	The Hausman test was utilized to establish and evaluate the hypothesis in the analysis of the unbalanced panel data utilizing the Random and Fixed effect model.	The study showed that the financial performance of Kenyan insurance companies was significantly impacted negatively by leverage and liquidity.
13	Sugiharto (2022)	Micro and macroeconomic determinants of the financial performance of life insurance firms in Indonesia: An empirical evidence	The main objective of the study was to investigate how macro and microeconomic factors affected the financial performance of life insurance firms	Regression analysis on panel data was used to test the proposed theories	The result showed that economic growth, the expense ratio, and the current ratio all have varying effects on the financial performance, or return on equity, in a sequential manner.
16	Barakat et al. (2022)	Analysis of the factors affecting the financial performance of insurance companies listed on the Palestine stock exchange	This study set out to look at the variables influencing the financial performance of Palestine's insurance companies	The researchers developed using multiple linear regression analysis	The findings demonstrated that the solvency margin and firm size had a positive, statistically significant effect on the return on equity. The findings showed that the Audit Committee and the claims loss ratio had a statistically significant negative effect on the return on equity.
14	Upadhyay and Sitlani (2023)	A study of determinants and their impact on financial performance of private non-life insurance industry in India	The goal of the study was to determine which internal financial factors affect the financial performance of Indian private non-life insurance	The data were subjected to panel data regression analysis, and the Fixed Effects Model (FEM) was utilized	The study found that the age of the company, claims ratio, management expense ratio, premium growth, retention ratio, and technical reserve ratio are statistically significant predictors of the financial performance of the respondent organizations. The profitability of responding organizations was negatively correlated

			companies		with the claims ratio, management expense ratio, premium growth, and retention ratio.
15	Msomi (2023)	Macroeconomic and firm-specific determinants of financial performance : evidence from non-life insurance companies in Africa	This study assessed firm-specific and macroeconomic financial performance determinants from 2008 to 2019.	Panel data with 1452 observations were analyzed using ordinary least squares and two-step System Generalized Method of Moments estimators	The study showed that the statistically significant factors influencing the financial performance of non-life insurance companies in Africa are lagged return on assets, equity capital, investment capability, and gross domestic product, even though operational efficiency, leverage, and equity capital had the opposite significance.
17	Msomi and Nzama (2023)	Analyzing firm-specific factors affecting the financial performance of insurance companies in South Africa	Multiple regression analysis and correlation were utilized in this study to examine the data	The non-life insurance companies were analyzed using the OLS to examine the non-life insurance companies profitability	The results of this study showed that the financial performance of South African insurance businesses was not statistically significantly impacted by leverage or liquidity ratios. Tangibility of assets and ROA as well as premium growth rate and ROA were shown to be negatively and statistically insignificantly correlated.
18	Wosti and Pradhan (2023)	Effect of firm specific factors and reinsurance on performance of Nepalese insurance companies	This study investigated how Nepalese insurance companies' performance was impacted by firm-specific characteristics and reinsurance	Multiple regression models were estimated	The study found that company size, liquidity, net claim ratio, and net commission ratio had a negative effect on the profitability of Nepalese insurance companies as measured by return on equity and return on assets. However, the study showed that the tangibility of assets and the ratio of ceded reinsurance had a positive impact on the performance of insurance companies as indicated by return on equity and return on assets.

2.3 Research Gap

This study differs from previous research in several ways, particularly regarding the time period analyzed. While earlier studies focused on older data, this study includes

data from 2013/14 to 2022/23. Additionally, prior research did not consider certain explanatory variables that this study incorporates, and they did not align with international studies highlighting the impact of firm-specific factors on the financial performance of insurance companies. This study employed descriptive analysis, correlation analysis, and multiple regression analysis, which were not utilized in previous research. Additionally, it incorporated t-tests and multicollinearity tests. The variables examined for their impact on the financial performance of insurance companies include liquidity, firm age, leverage, gross premium, and company size, marking a novel effort to include these factors in the analysis through multiple regression. Furthermore, this study focuses on five major non-life insurance companies: NLG Insurance Company Limited (NLG), Neco Insurance Ltd. (NIL), Himalayan Everest Insurance Limited (HEI), Shikhar Insurance Company Limited (SICL), and Siddhartha Insurance Company Limited (SIL). These companies were not included in prior research analyzing financial performance. By examining these specific firms, this study aims to address a gap in the existing literature.

CHAPTER–III
RESEARCH METHODOLOGY

This section outlines the procedures, tools, methods, and approaches used in the preparation and data analysis of the report. It involves thorough investigation, especially in seeking new information within the relevant field to select the most appropriate research methods. The study's objectives have been achieved through the following approach.

3.1 Research Design

Research design serves as an overarching plan or framework for the study. This research employed both descriptive and causal-comparative designs. The descriptive research design was utilized to analyze the status and patterns of firm-specific factors and financial performance, while the causal-comparative design was employed to assess the relationships and impacts of these factors on the financial performance of insurance companies in Nepal.

3.2 Population and Sample, and Sampling Design

As of July 2024, there are a total of 34 insurance companies operating in Nepal, including life, non-life, micro insurance, and reinsurance firms, which form the study's population. However, it is not feasible to examine all these companies within this research. Therefore, the study focuses on five non-life insurance companies—NLG Insurance Company Limited (NLG), Neco Insurance Ltd. (NIL), Himalayan Everest Insurance Limited (HEI), Shikhar Insurance Company Limited (SICL), and Siddhartha Insurance Company Limited (SIL) selected through purposive sampling. These companies were chosen due to their status as the top five performers in the current context and the availability of relevant data.

3.3 Nature and Sources of Data, and Instrument of Data Collection

The study utilized secondary data to achieve its objectives. Secondary data refers to information that has already been collected or utilized by others and is available through published statistics in journals, newspapers, magazines, annual reports, and other sources. The primary source of secondary data for this study was the annual reports of the selected insurance companies. In addition to annual reports, various

other data sources were employed, including newspapers, magazines, economic journals, the Insurance Regulatory Authority of Nepal, and research plan documents.

3.4 Method of Analysis

In this section, various tools and techniques are employed, including:

Arithmetic Mean or Average

The arithmetic mean is calculated by dividing the total sum of a data set by the number of observations, treating each element as equally significant. For the purposes of this study, the simple arithmetic mean was utilized to meet the analytical requirements.

$$\text{Mean } (\bar{X}) = \frac{X_1 + X_2 + X_3 + \ldots\ldots\ldots X_n}{n} = \frac{\Sigma X}{n}$$

Where,

$\sum X$ = sum of all values of the variable 'x'

n = number of observations

X = variables involved

Standard Deviation

An indicator of the unpredictability of a random variable, the standard deviation measures the average deviation of a data set from its arithmetic mean. It is calculated as the positive square root of the variance. This measure retains all the essential properties of variance and has the advantage of being expressed in the same units as the original data, making it a meaningful and useful metric for dispersion. The standard deviation is often represented by the Greek letter sigma (σ).

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}}$$

Where,

X = variables involved

$\bar{X}$ = mean

n = number of observations

Correlation Coefficient (r)

One statistical method for analyzing the connection between two variables is correlation. The linear correlation coefficient, denoted by the symbol r, quantifies both the strength and direction of a linear relationship between these variables. This coefficient is often called the Pearson product moment correlation coefficient in honor of its developer, Karl Pearson. When a change in the value of one variable appears to be related to a change in another variable, these variables are considered correlated. Correlation analysis is an appropriate statistical technique for detecting such relationships and summarizing them into a concise formula when the relationship is quantitative.

$$\text{Correlation Coefficient (r)} = \frac{n\Sigma XY - \Sigma X\Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

'r' has a value such that $-1 < r < +1$.For positive and negative linear correlations, respectively, the signs +ve and -ve are utilized.

Positive correlation: "r" is equal to +1 if there is a perfect positive linear correlation between "x" and "y."

Negative correlation: "r" is equal to -1 if there is a perfect negative linear correlation between "x" and "y."

No correlation: "r" is near to 0 in the case of either a weak or nonexistent linear correlation.

A perfect correlation of ±1 occurs only when all data points lie exactly on a straight line. Correlations above 0.8 are generally regarded as indicating a strong positive correlation, while those below 0.5 are typically considered to reflect a weak positive correlation.

t- Statistics

The distribution was created in 1908 by W.S. Grosset, who wrote under a pen name, and was later explained by R.A. Fisher. The t-test is employed to verify whether the assumptions regarding small sample sizes in a study are valid. To use the t distribution, t-values are calculated and compared against critical values at a specific significance level for a given degree of freedom. A difference is deemed significant at the five percent level if the absolute value of the calculated t exceeds the critical value (t 0.05). Conversely, if the t-values are lower than the corresponding critical values,

the difference is not considered significant. The t statistic under the null hypothesis (H0) is:

$$t = \frac{r}{\sqrt{1 - r^2}} \times \sqrt{n - 2}$$

Where,

t=calculated value of t

r= correlation of coefficient between the variables.

n= number of sample.

Decision: If calculated 't' is less than or equal to tabulated value of 't' it falls in the accepted region and the null hypothesis is accepted and if calculated 't' is greater than tabulated 't' null hypothesis is rejected.

Multiple Regression Analysis

Regression analysis refers to a set of statistical techniques used to estimate the relationships between variables. When examining the connection between dependent variables like ROA and ROE and independent variables such as firm age, liquidity, leverage, premium growth, and enterprise size, it includes various methods for modeling and analyzing these multiple factors. Specifically, regression analysis shows how a change in one independent variable, while holding the others constant, affects the expected value of the dependent variable, also known as the "criterion variable." Consequently, this model has been used to explore the relationships and impacts of the study variables.

Model 1: $ROA_{it} = \beta_0 + \beta_1 AGE_{it} + \beta_2 LIQ_{it} + \beta_3 LEV_{it} + \beta_4 PG_{it} + \beta_5 SIZE_{it} + e_{it}$ (1)

Model 2: $ROE_{it} = \beta_0 + \beta_1 AGE_{it} + \beta_2 LIQ_{it} + \beta_3 LEV_{it} + \beta_4 PG_{it} + \beta_5 SIZE_{it} + e_{it}$ (2)

Where:

ROA_{it} = Return on assets of insurance companies i^{th} for the time period t

ROE_{it} = Return on equity of insurance companies i^{th} for the time period t

AGE_{it} = Age of insurance companies i^{th} for the time period t

LIQ_{it} = Liquidity ratio of insurance companies i^{th} for the time period t

LEV_{it} = Leverage ratio of insurance companies i^{th} for the time period t

PG_{it} = Premium growth of insurance companies i^{th} for the time period t

$SIZE_{it}$ = Size of companies or total assets of insurance companies i^{th} for the time period t

β_0 = The intercept (constant)

β_1, β_2, β_3, β_4, β_5 = The slope which represents the degree with which insurance companies financial performance changes as the independent variable changes by one unit variable.

e = error component

3.5 Research Framework and Definition of the Variables

The researcher establishes the following research framework for the study, drawing from an analysis of both theoretical and empirical literature.

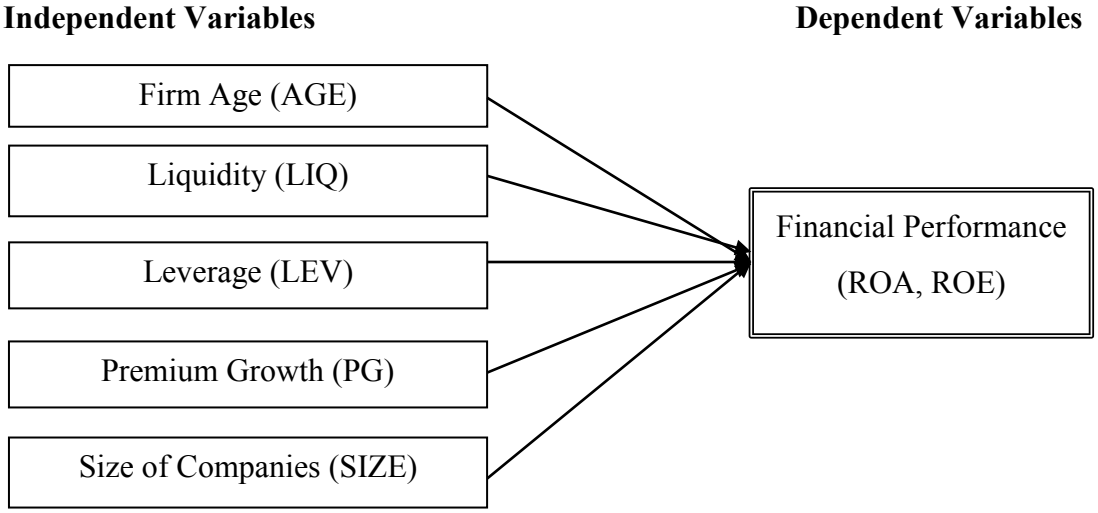

Figure 1 Research Framework

Source: (Legass et al., 2021; Msomi & Nzama, 2023; Upadhyay & Sitlani, 2023)

Dependent Variables

Return on Assets (ROA)

ROA reflects the ability of insurance management to generate profits from the assets under their control and is a key ratio for evaluating the financial performance of insurance companies. Developed by Dupont in 1919, return on assets (ROA) assesses how effectively a firm utilizes its assets, indicating its capital intensity and allowing for comparisons with others in the same industry. One of the leading financial models for performance evaluation is Msomi and Nzama's (2023) framework, which highlights the effectiveness of insurance management in generating profits from these assets.

Return on Equity (ROE)

A company's financial performance is measured by its return on equity (ROE), which indicates the profit generated from shareholders' capital. Malahim and Khatib (2016) found that the debt ratio and inflation rate had a positive but statistically insignificant effect on financial performance. In contrast, Pradhan and Pokharel (2020) identified a positive relationship between age, size, and liquidity and the ROE of Nepalese insurance companies. Additionally, Sugiharto (2022) demonstrated that economic growth, the expense ratio, and the current ratio each have different sequential effects on financial performance, specifically return on equity.

Independent Variables

Firm Age

The age of the company has been included in the study to explore the potential relationship between a company's performance and its age, which is measured by the number of years since its establishment. Firms that have been around longer tend to have established goodwill in the market, leading to greater trust from the public and other stakeholders. As a result, they often exhibit better performance, reflected in higher ROA and ROE (Glancey, 1998). Upadhyay and Sitlani (2023) found a statistically significant positive effect of company age on the financial performance of insurance companies. In contrast, Meher and Zewudu (2020) reported that company age negatively impacted the financial performance of Saudi insurance companies.

Liquidity

Liquidity assesses a firm's capability to utilize its near-cash or "quick" assets to meet its liabilities, calculated as current assets divided by current liabilities. Browne et al. (2001) provided evidence that performance is positively associated with the proportion of liquid assets in an insurance company’s asset mix. Msomi and Nzama (2023) concluded that liquidity significantly positively affects the financial performance of insurance companies. Conversely, Legass et al. (2021) found that liquidity negatively impacts the financial performance of these companies.

Leverage

Leverage is a financial ratio that shows the percentage of a firm's assets financed by debt, measured in this study as total debt divided by total equity. While insurance

companies can thrive by taking on manageable leverage risk, excessive risk may lead to insolvency. Adams and Buckle (2000) demonstrated that insurance companies with higher leverage tend to have better operational performance than those with lower leverage. Msomi and Nzama (2023) found that leverage has a significant positive effect on the financial performance of insurance companies. However, Legass et al. (2021) reported that leverage negatively impacts the financial performance of these companies.

Premium Growth

Premium growth is recognized in the literature as a crucial financial variable affecting the financial performance of insurance companies. It is commonly argued that an increase in premiums influences this performance, leading to frequent studies on the topic. Premium growth is typically measured by the percentage change in total assets or the percentage change in premiums. Upadhyay and Sitlani (2023) found a statistically significant positive effect of premium growth on the financial performance of insurance companies. Similarly, Legass et al. (2021) also identified a significant positive impact of premium growth on financial performance.

Company Size

Company size is believed to have a positive relationship with financial performance, supported by several key factors. First, larger insurance companies generally have a greater capacity to manage adverse market fluctuations compared to smaller firms. Second, they often find it easier to recruit skilled professionals with relevant expertise. Third, larger companies benefit from economies of scale in labor costs, which are a significant factor in providing insurance services (Kishor & Temesgen, 2020). Company size is measured as the decimal logarithm of the total assets of the insurance company. Msomi and Nzama (2023) noted that size positively affects the financial performance of insurance companies, a finding that aligns with Legass et al. (2021), who also reported a positive impact of size on financial performance.

CHAPTER - IV
RESULTS AND DISCUSION

The main goal of this study is to analyze the financial performance of the Nepalese non-life insurance industry, as discussed in earlier chapters. This chapter is divided into three sections: the first section presents descriptive and correlation analyses of the study variables; the second section verifies that the assumptions of the linear regression model are satisfied; and the third section displays the results of the regression analysis. For additional statistical assessment, ratios of the identified dependent and independent variables, along with measurements on the ratio scale, were calculated using data analysis techniques. The statistical analysis of the collected data was conducted using SPSS version 26.

4.1 Results

4.1.1 Descriptive Statistics of Variables

Table 2 displays the descriptive statistics for the variables analyzed in the study. The results outline the minimum and maximum values for performance metrics of insurance companies in Nepal, specifically regarding financial performance indicators like ROA and ROE. Additionally, it includes independent factors such as company age, liquidity, leverage, premium growth, and company size, providing a comprehensive overview of the data distribution for these variables.

Table 2

Descriptive Statistics of Variable of Insurance Companies

Variables	N	Minimum	Maximum	Mean	Std. Deviation
AGE	50	7.00	29.00	18.5000	6.01444
LIQ	50	1.28	3.22	1.8866	.46649
LEV	50	.35	2.07	.8972	.35236
PG	50	-73.23	70.89	15.7446	22.65457
LSIZE	50	5.89	7.02	6.4739	.26116
ROA	50	3.45	12.71	7.9424	2.20483
ROE	50	5.57	27.48	15.4506	5.92830

Source: Appendix –II

Table 2 displays the descriptive statistics for both dependent and independent variables used in the study. Over the past 10 years, the average age of the companies was 18.5 years, with a maximum age of 29 years and a minimum age of 7 years. The

standard deviation of 6.01444 indicates significant variability in company age. The average liquidity value was 1.8866, with a range from a minimum of 1.28 to a maximum of 3.22. The standard deviation of liquidity, at 0.46649, suggests less variation over the past decade compared to the fluctuations indicated by the standard deviation. The mean leverage value was 0.8972, ranging from a minimum of 0.35 to a maximum of 2.07, with a standard deviation of 0.35236, indicating relatively less variation in leverage values compared to the extent of fluctuation represented by the standard deviation.

The average premium growth for the sample insurance companies was 15.7446, with a maximum value of 70.89 and a minimum of -73.23. The standard deviation of 22.65457 indicates substantial variability in growth rates, as reflected in the annual premium growth data. Over the past 10 years, the average insurance size value was 6.4739, representing the midpoint of the distribution among the selected companies. The maximum insurance size was 7.02, while the minimum was 5.89. The standard deviation of 0.26116 suggests notable dispersion around the mean insurance size.

During the study period, the average return on assets (ROA) for insurance companies in Nepal was approximately 7.9424, with a standard deviation of 2.20483. This indicates a modest level of variability in financial performance. The ROA ranged from a minimum of 3.45 to a maximum of 12.71, highlighting significant differences among companies. The top-performing company achieved a profit of 12.71 for every rupee invested in assets. The standard deviation of 2.20483 suggests considerable variation from the mean, indicating that insurance firms need to optimize their asset utilization to enhance returns.

The average return on equity (ROE) for the insurance companies studied was 15.4506 percent, reflecting the central tendency of the distribution over the past decade. The highest recorded ROE was 35.16 percent, indicating that the most profitable insurance firm generated approximately 27.48 percent of net income for each rupee invested in equity. The range of ROE among the sample companies varied from a minimum of 5.57 percent to a maximum of 27.48 percent.

4.1.2 Correlation Analysis

A correlation matrix is a table that displays the correlation coefficients between pairs of variables, with each cell indicating the correlation between two corresponding variables. This matrix serves as a summary tool, providing a concise overview of the strength and direction of relationships between the variables. A correlation value of 0 indicates no linear relationship, a coefficient of +1 represents a perfect positive relationship, and a coefficient of -1 signifies a perfect negative relationship. Table 3 illustrates the correlation matrix accordingly.

Table 3

Pearson Correlation Coefficients of Study Variables

	AGE	LIQ	LEV	PG	LSIZE	ROA	ROE
AGE	1						
LIQ	.471**	1					
LEV	-.479**	-.860**	1				
PG	-.170	-.323*	.138	1			
LSIZE	.243	.541**	-.576**	-.229	1		
ROA	-.478**	-.643**	.506**	.297*	-.459**	1	
ROE	-.562**	-.806**	.787**	.275	-.586**	.923**	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Source: Appendix –III

Table 3 presents the correlation test results between the dependent and independent variables through a correlation coefficient matrix. The analysis indicates that the age of the companies (AGE) has a significant negative relationship with ROA at the 1 percent level and also negatively correlates with ROE. Liquidity (LIQ) similarly shows a significant negative correlation with both ROA and ROE. In contrast, leverage (LEV) is positively correlated with both ROA and ROE. Premium growth (PG) demonstrates a significant positive correlation with ROA, though its relationship with ROE is not statistically significant. Additionally, company size (SIZE) has a significant negative correlation with both ROA and ROE.

4.1.3 Results of Regression Analysis

Various modeling and analysis techniques are utilized to explore the relationships between the dependent variables (ROA and ROE) and the independent factors (such as company age, liquidity, leverage, premium growth, and company size). Ordinary

Least Squares (OLS) regression is a key method employed in panel data analysis to evaluate these relationships.

Table 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.707[a]	.500	.443	1.64519

a. Predictors: (Constant), LSIZE, PG, AGE, LIQ, LEV

Source: Appendix –IV

The coefficient of determination (R^2) in the multiple regression analysis measures how well the model explains the variability in the dependent variable. In this case, an R^2 value of 0.500 indicates that 50.00 percent of the variance in ROA is explained by the independent variables (LSIZE, PG, AGE, LIQ, LEV). The R statistic, with a value of 0.767, reflects a strong correlation among the research variables, suggesting a significant relationship between the independent factors and ROA. This indicates that the independent variables have a notable impact on ROA, and the regression analysis is closely aligned with the standard error of estimate.

Table 5

Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	119.109	5	23.822	8.801	.000[b]
	Residual	119.093	44	2.707		
	Total	238.202	49			

a. Dependent Variable: ROA

b. Predictors: (Constant), LSIZE, PG, AGE, LIQ, LEV

Source: Appendix –IV

The ANOVA analysis, based on the F-value, indicates that the impact on the dependent variable ROA can be explained by a comprehensive set of predictor variables. The results reveal that the ROA indicator is significantly influenced by the independent variables. This is demonstrated by the F-value of 8.801 ($p = 0.000 < 0.05$) for the ROA proxy variables (LSIZE, PG, AGE, LIQ, and LEV), highlighting a strong association between the independent variables and the dependent variable (ROA).

Table 6

Regression Coefficient of Independent Variables with ROA

Variables	Coefficients	t-statistics	p-value
(Constant)	29.020	3.469	.001
AGE	-.095	-2.102	.041
LIQ	-3.199	-2.942	.005
LEV	-2.039	-1.400	.169
PG	.003	.266	.792
LSIZE	-1.777	-1.582	.121

Source: Appendix –IV

Table 6 displays the regression coefficients for the independent variables age of companies, liquidity, leverage, premium growth, and size of the companies as well as the intercept value for the dependent variable ROA. The regression results indicate a negative correlation between the age of firms (AGE) and ROA, with a coefficient estimate of -0.095. This suggests that a 1 percent increase in company age leads to a 0.095 percent decrease in ROA, holding other variables constant. This decline is statistically significant at the 5 percent level, as evidenced by AGE's p-value of 0.041. Therefore, the age of companies (AGE) has a significant negative impact on the ROA of insurance companies.

The regression model results show a negative association between liquidity (LIQ) and ROA, with a coefficient estimate of -3.199. This suggests that, while holding other independent variables constant, a 1 percent increase in liquidity results in a 3.199 percent decrease in the ROA of insurance companies. The p-value for liquidity (LIQ) is 0.005, indicating that this relationship is statistically significant at the 5 percent significance level.

The regression results indicate a negative relationship between leverage (LEV) and ROA, with a coefficient estimate of -2.039. This implies that, while holding other independent variables constant, a 1 percent increase in leverage results in a 2.039 percent decrease in the ROA of insurance companies. The p-value for leverage (LEV) is 0.169, suggesting that this relationship is not statistically significant at the 5 percent level. Therefore, the results support the hypothesis that leverage (LEV) has a negative but statistically insignificant impact on the return on assets (ROA) of insurance companies.

The regression model indicates a positive correlation between premium growth (PG) and ROA, with a coefficient estimate of 0.024. This suggests that a one-unit increase in premium growth leads to a 0.024 percent improvement in ROA for the sample companies, assuming other independent variables remain constant. However, the p-value of 0.792 shows that this relationship is statistically insignificant at the 5 percent significance level. Therefore, premium growth has an insignificant positive impact on the ROA of the sample insurance companies. The regression results indicate a negative association between firm size (SIZE) and ROA, with a coefficient estimate of -1.777. This implies that a 1-unit increase in firm size leads to a 1.777 percent decrease in ROA, holding other independent variables constant. The p-value for SIZE is 0.121, which exceeds the 5 percent significance level, resulting in the acceptance of the null hypothesis. Therefore, the size of the company has a statistically insignificant negative impact on the return on assets (ROA) of insurance companies.

Table 7

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.859[a]	.738	.708	3.20383

a. Predictors: (Constant), LSIZE, AGE, PG, LEV, LIQ

Source: Appendix –V

The coefficient of determination (R^2) in the multiple regression analysis quantifies how well the model fits the data. In this instance, an R^2 value of 0.738 indicates that the model explains 73.80 percent of the variance in the dependent variable, ROE. The R statistic, with a value of 0.859, suggests a strong correlation among the variables being studied, indicating that the independent factors significantly influence ROE. Additionally, the regression analysis is closely aligned with the standard error of estimate.

Table 8

Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1270.453	5	254.091	24.754	.000[b]
	Residual	451.640	44	10.265		
	Total	1722.093	49			

a. Dependent Variable: ROE

b. Predictors: (Constant), LSIZE, AGE, PG, LEV, LIQ

Source: Appendix –V

The ANOVA analysis, based on the F-value, indicates that a wide range of predictor variable combinations significantly impacts the dependent variable ROE. The results demonstrate that ROE is significantly influenced by the independent variables. Specifically, the F-value of 24.754 ($p = 0.000 < 0.05$) for the predictors LSIZE, PG, AGE, LIQ, and LEV highlights a strong correlation between these independent factors and ROE.

Table 9

Regression Coefficient of Independent Variables with ROE

Variables	Coefficients	t-statistics	p-value
(Constant)	50.148	3.078	.004
AGE	-.209	-2.377	.022
LIQ	-4.907	-2.317	.025
LEV	4.165	1.469	.149
PG	.011	.468	.642
LSIZE	-3.935	-1.798	.079

Source: Appendix –V

Table 9 displays the regression coefficients for the independent variables age of companies, liquidity, leverage, premium growth, and size of the companies as well as the intercept value for the dependent variable ROE. The regression results indicate a negative correlation between the age of companies (AGE) and ROE, with a coefficient estimate of -0.209. This means that a 1 percent increase in the age of firms leads to a 0.209 percent decrease in the ROE of insurance companies, holding all other variables constant. This relationship is statistically significant at the 5 percent level, as reflected by the p-value of 0.022. Therefore, the age of companies (AGE) has a significant negative impact on the ROE of insurance companies.

The regression model shows a negative association between liquidity (LIQ) and ROE, with a coefficient estimate of -4.907. This suggests that a 1 percent increase in liquidity results in a 4.907 percent decrease in the ROE of insurance companies, assuming other independent variables remain constant. The p-value for liquidity (LIQ) is 0.025, indicating that this negative impact is statistically significant at the 5 percent significance level.

The regression results indicate a positive association between leverage (LEV) and ROE, with a coefficient estimate of 4.165. This implies that a 1 percent increase in leverage leads to a 4.165 percent increase in the ROE of insurance companies, assuming other independent variables remain constant. However, the p-value for leverage (LEV) is 0.149, suggesting that this effect is not statistically significant at the 5 percent significance level. Therefore, despite the observed positive association, leverage (LEV) does not have a statistically significant impact on ROE according to this analysis.

The regression model results indicate a positive association between premium growth (PG) and ROE, with a coefficient estimate of 0.011. This suggests that a one-unit increase in premium growth leads to a 0.011 percent increase in ROE for the sample companies, assuming other factors remain constant. However, the p-value for premium growth is 0.642, indicating that this effect is statistically insignificant at the 5 percent significance level. Therefore, premium growth has an insignificant positive impact on ROE for the sample insurance companies.

The regression analysis shows a negative correlation between ROA and the size of the enterprises (SIZE), with a coefficient estimate of -3.935. This implies that a 1-unit increase in the size of the firms leads to a 3.935-unit decrease in ROA, while holding other variables constant. The p-value for SIZE is 0.079, indicating that this negative impact is not statistically significant at the 5 percent significance level. Consequently, the analysis suggests that the size of the enterprises has a statistically insignificant negative effect on ROA.

4.2 Discussion

The main objective of this study is to examine the financial performance analysis of Nepalese non-life insurance industry. Age of companies, liquidity, leverage, premium growth and size of the companies have a direct impact on return on assets and returns on equity, the two main parameters for measuring financial performance of the non-life insurance companies. Results obtained from the data analysis for age of the companies has negative and statistically significant relationship with ROA of insurance companies in Nepal. The result is consistent with Malahim and Khatib (2016); Msomi (2023) which observed negative relationship between age of companies and ROA. However, it contradicts with Pradhan and Pokharel (2020) which concluded that that there is positive and insignificant relationship between age of companies and ROA. The age of companies is found to have a significant negative relationship with ROE, which contrasts with the findings of previous studies by Pradhan and Pokharel (2020). Liquidity shows a significant negative relationship with ROA among Nepalese insurance companies, aligning with the results of Jaishi and Poudel (2021); Msomi and Nzama (2023). However, this finding contradicts the results reported by Bishaw et al. (2019); Ishtiaq and Siddiqui (2019); Pradhan and Pokharel (2020); Msomi (2023). Similarly, there is a significant negative correlation between liquidity and ROE. This finding is consistent with the studies by Msomi and Nzama (2023), which observed that liquidity has a negative and significant relationship with ROE in insurance companies. However, it contrasts with the findings of Bishaw et al. (2019); Pradhan and Pokharel (2020).

At the meantime, leverage (LEV) has significant positive relationship with ROA which is consistent with the finding of Bishaw et al. (2019). This is also consistent with the finding of Ishtiaq and Siddiqui (2019); Pradhan and Pokharel (2020) but opposite to the finding of Rashid and Malahim and Khatib (2016); Msomi (2023) and significant positive relationship with ROE which is similar with the previous study of Malahim and Khatib (2016). This is also consistent with the finding of Bishaw et al. (2019); Pradhan and Pokharel (2020). The correlation analysis reveals a significant positive correlation between premium growth (PG) and ROA. This finding is consistent with previous studies by Deyganto and Alemu (2019); Bishaw et al. (2019); Ishtiaq and Siddiqui (2019), which also observed a positive association

between premium growth and ROA. Additionally, premium growth has an insignificant positive relationship with ROE, aligning with the results of Bishaw et al. (2019) but opposite to the finding of Msomi and Nzama (2023). Moreover, the size of companies (SIZE) exhibits a significant negative relationship with ROA, which is consistent with the findings of Msomi (2023); Jaishi and Poudel (2021) who also reported a negative relationship between company size and ROA. However, this result contradicts the conclusions of Deyganto and Alemu (2019); Bishaw et al. (2019); Pradhan and Pokharel (2020), who found a significant positive relationship between company size and ROA. Additionally, the size of companies has a significant negative relationship with ROE, aligning with Barakat et al. (2022), but differing from the findings of Bishaw et al. (2019); Pradhan and Pokharel (2020), who observed a positive relationship between size and ROE.

The multiple regression analysis shows that age of companies has significant negative impact on ROA of insurance companies. This is similar with the finding of Msomi (2023), concluded that age of companies had negative impact on ROA but opposite to the finding of Mwangi and Murigu (2015); Bishaw et al. (2019); Pradhan and Pokharel (2020). At the same time, liquidity has a significant negative impact on ROA for insurance companies. This finding is consistent with Mwangi and Murigu (2015), who reported that liquidity negatively affects ROA. This is also consistent with the finding of Tesfaye (2016); Jaishi and Poudel (2021). However, it contrasts with the findings of Bishaw et al. (2019); Pradhan and Pokharel (2020), who observed different effects. However, leverage ratio has insignificant negative impact on ROA of insurance companies in Nepal. This finding is similar with the prior study of Tesfaye (2016); Legass et al. (2021) but opposite to the finding of Mwangi and Murigu (2015); Bishaw et al. (2019); Pradhan and Pokharel (2020). Further, premium growth has insignificant positive effect on ROA of insurance companies in Nepal. This is consistent with the finding of Deyganto and Alemu (2019) which observed that premium growth had positive effect on ROA of insurance companies. This is also consistent with the finding of Msomi and Nzama (2023). However, it contradicts with the prior study of Tesfaye (2016); Upadhyay and Sitlani (2023). Moreover, the size of companies has an insignificant negative impact on ROA for insurance companies. This finding is consistent with the results of Bishaw et al. (2019); Jaishi and Poudel (2021), who also observed a negative impact of company size on ROA in Nepal.

However, it contradicts the findings of Deyganto and Alemu (2019); Pradhan and Pokharel (2020), who reported a positive effect of company size on ROA.

On regression ROE, age of companies has significant negative impact on ROE of insurance companies. This is consistent with the previous literature of Msomi (2023) but opposite to the finding of which is consistent with the finding of Bishaw et al. (2019); Pradhan and Pokharel (2020). Meanwhile, liquidity has a significant negative impact on ROE for insurance companies, aligning with the findings of Mwangi and Murigu (2015), who reported a significant negative effect of liquidity on ROA. However, this result contradicts the findings of Bishaw et al. (2019); Pradhan and Pokharel (2020). Additionally, the leverage ratio has an insignificant positive impact on ROE, which is consistent with the findings of Malahim and Khatib (2016); Bishaw et al. (2019); Pradhan and Pokharel (2020).

Further, premium growth has insignificant positive effect on ROE of insurance companies in Nepal. This result is in line with Bishaw et al. (2019) which observed that premium growth had positive effect on ROE of insurance companies. This is also consistent with the finding of Deyganto and Alemu (2019). Finally, size of companies has insignificant negative impact on ROE of insurance companies. This is consistent with the finding of Bishaw et al. (2019). However, it contradicts with the finding of which is consistent with the finding of Malahim and Khatib (2016); Pradhan and Pokharel (2020); Barakat et al. (2022) concluded that size of companies had significant positive effect on ROA.

CHAPTER - V
SUMMARY AND CONCLUSION

5.1 Summary

Company performance is defined as the difference between the profits generated by its assets and the costs of its obligations. It reflects a company's capacity to either generate sufficient revenue or minimize operating costs, indicating greater efficiency. Profitability is evaluated through various financial ratios, including return on equity, net interest margin, and return on assets, which collectively assess a company's financial performance. Profitability is influenced by both global and local factors. Micro variables, or firm-specific factors, include elements from the income statement and balance sheet that management can influence. In contrast, macro factors significantly impact profitability but are external to the company's control and processes. This study explores how premium growth, company age, liquidity, leverage, and company size affect profitability.

The primary objective of this study is to analyze the financial performance of selected non-life insurance companies in Nepal. Additional specific objectives include assessing the patterns and status of financial performance in the non-life insurance sector, examining the relationship between firm-specific (internal) factors and financial performance, and investigating the impact of factors such as liquidity, firm age, leverage, gross premium, and company size on the financial performance of non-life insurance in Nepal. This study utilized both descriptive and causal research designs. The descriptive research design was implemented to analyze the status and patterns of firm-specific factors and financial performance. Conversely, a causal-comparative research design was used to evaluate the relationships and impacts of these firm-specific factors on the financial performance of insurance companies in Nepal. The study considered all 34 insurance companies operating in Nepal, including life, non-life, and reinsurance firms, as the population. However, the sample was narrowed down to five non-life insurance companies: NLG Insurance Company Limited (NLG), Neco Insurance Ltd. (NIL), Himalayan Everest Insurance Limited (HEI), Shikhar Insurance Company Limited (SICL), and Siddhartha Insurance Company Limited (SIL). These companies were selected using a purposive sampling method. The research utilized secondary data primarily obtained from annual reports

and other publications of the insurance companies, covering a ten-year period from the fiscal year 2013/14 to 2022/23. The analytical methods applied in the study included descriptive analysis, correlation analysis, and multiple regression analysis.

The results indicate that the age of companies, liquidity, leverage, premium growth, and company size are crucial factors influencing the financial performance of insurance companies in Nepal. The correlation analysis shows that the age of the companies and the liquidity ratio have a significant negative relationship with financial performance (ROA and ROE) among the sampled insurance companies. In contrast, leverage is found to have a significant positive relationship with both ROA and ROE. The correlation analysis reveals that premium growth has a significant positive correlation with ROA but an insignificant positive relationship with ROE. Additionally, company size is associated with a significant negative relationship with the financial performance (ROA and ROE) of insurance companies in Nepal. The study indicates that both the age of companies and the liquidity ratio have a significant positive impact on financial performance (ROA and ROE). Conversely, the leverage ratio shows an insignificant negative impact on ROA and an insignificant positive impact on ROE. Furthermore, premium growth has an insignificant positive effect on the financial performance (ROA and ROE) of insurance companies in Nepal. Additionally, company size has an insignificant negative effect on the financial performance (ROA and ROE) of insurance companies in Nepal. Therefore, it can be concluded that the age of companies and liquidity are key factors influencing the financial performance of insurance companies in Nepal.

5.2 Conclusion

The analysis concludes that the liquidity, or current ratio, of the sample companies shows a fluctuating trend. Himalayan Everest Insurance (HEI) is the oldest company and has the most experience, resulting in superior performance. HEI also appears to be the most liquid among the sample companies, indicating a strong capacity to meet its debt obligations. In contrast, leverage ratios for Nepalese insurance companies have generally declined in recent years. Siddhartha Insurance Company Limited (SIL), in particular, relies heavily on creditor funding compared to owner contributions, which poses a risk due to its highest leverage ratio among the firms analyzed. The premium growth rates vary significantly among the sample companies.

Notably, Himalayan Everest Insurance (HEI) stands out with the highest revenue, the largest number of policyholders, and the highest average price per exposure. Shikhar Insurance Company Limited (SICL) excels in risk diversification, resources, advanced information systems, and efficient cost control. With its strong performance metrics, SICL has effectively managed its operations and maintained a profitable ROA, indicating exceptional management in generating profits from its assets and optimizing returns. This positions SICL as a leader in terms of return on equity and ROA among the sample companies. Additionally, Siddhartha Insurance Company Limited (SIL) demonstrates a forward-looking approach, reflecting its progressive strategy.

The correlation analysis indicates that the age of the companies (AGE) and the liquidity ratio have a significant negative relationship with the financial performance (ROA and ROE) of the sampled insurance companies in Nepal. In contrast, leverage (LEV) is positively correlated with both ROA and ROE. The analysis also reveals that premium growth (PG) has a significant positive correlation with ROA, although its relationship with ROE is insignificant. Additionally, the size of companies (SIZE) demonstrates a significant negative relationship with financial performance (ROA and ROE) among insurance companies in Nepal.

The multiple regression analysis concluded that the age of companies and the liquidity ratio have a significant positive impact on the financial performance (ROA and ROE) of insurance companies. Meanwhile, the leverage ratio exhibits an insignificant negative impact on ROA and an insignificant positive impact on ROE. Additionally, premium growth shows an insignificant positive impact on the financial performance (ROA and ROE) of insurance companies in Nepal. Finally, company size has an insignificant negative effect on financial performance (ROA and ROE). Therefore, the age of companies and liquidity are identified as the major factors influencing financial performance in Nepalese insurance companies.

5.3 Implications

This study has the following implications;

- This study found that age of companies and liquidity have a significant impact on financial performance of insurance companies in Nepal. This finding

suggests that Nepalese insurance companies should carefully manage their branch expansion and short-term liabilities while ensuring that their assets are appropriately aligned with these liabilities. Additionally, the challenge of insufficient premium volume needs to be addressed. This information is crucial for insurance company managers, as it underscores areas that require attention and strategic adjustments to improve financial stability and foster growth.

- The study also encourages executives of Nepalese insurance companies to evaluate their past performance and offers guidance for future strategies and initiatives. It provides current information and data on factors influencing financial performance, as well as insights into existing industry challenges. As a result, this study is valuable for regulators, investors, managers, and clients, offering insights into the dynamics of financial performance and informing decision-making processes.
- The study suggests that effective management of financial performance in insurance companies can have a positive impact not only on the companies themselves but also on individuals, businesses, and the broader economy. Given that different factors influence the financial performance of insurance companies in various ways, enhancing this performance can contribute to the overall welfare of the financial sector and benefit the community at large.
- This study offers a robust conceptual framework and valuable insights into the financial performance of insurance companies, making it a useful resource for future researchers investigating similar topics.
- Beema Samiti and investors can leverage this study to concentrate on the key factors affecting financial performance. Both the literature and our findings suggest that the insurance sector is still in its early stages of development and has not advanced as expected compared to national growth benchmarks.

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APPENDICES

APPENDIX – I

Data of Sample Companies

Co.	Year	LIQ	AGE	LEV	PG	SIZE	ROA	ROE
NIL	2013/14	1.49	19	1.27	9.48	782803	4.69	10.64
	2014/15	1.47	20	1.02	17.65	1002878	9.19	18.55
	2015/16	1.48	21	1.16	70.89	1328791	9.15	19.77
	2016/17	1.68	22	0.91	50.07	2350208	8.87	16.97
	2017/18	1.83	23	0.74	21.92	3416340	8.85	15.43
	2018/19	1.71	24	0.88	15.37	4142467	8.56	16.07
	2019/20	1.81	25	0.87	8.22	4982835	9.39	17.56
	2020/21	1.81	26	0.88	16.48	5937233	8.50	15.98
	2021/22	1.92	27	0.83	18.15	6758915	8.06	14.77
	2022/23	1.89	28	0.82	-41.84	7730286	7.16	13.04
NLG	2013/14	1.66	15	1.01	21.76	1359473	12.71	25.50
	2014/15	1.43	16	1.32	24.35	1895620	8.06	18.70
	2015/16	1.71	17	0.98	22.64	2075308	11.06	21.86
	2016/17	1.86	18	0.81	11.68	2307096	10.01	18.13
	2017/18	1.95	19	0.78	10.56	2701455	9.17	16.31
	2018/19	1.94	20	0.71	10.71	2946092	6.87	11.78
	2019/20	2.31	21	0.58	8.08	3687350	7.12	11.22
	2020/21	2.53	22	0.51	17.73	3914115	5.25	7.92
	2021/22	2.93	23	0.41	11.36	3984440	5.99	8.44
	2022/23	3.22	24	0.36	-73.23	4169587	5.78	7.89
HEI	2013/14	1.28	20	1.56	3.69	1158217	8.06	20.65
	2014/15	1.28	21	2.07	-9.22	1774232	7.99	24.52
	2015/16	1.81	22	0.96	25.13	1377378	9.50	18.58
	2016/17	1.50	23	1.07	24.72	1585978	7.68	15.86
	2017/18	2.08	24	0.55	-9.72	2470329	5.74	8.92
	2018/19	2.00	25	0.55	22.51	2722523	7.43	11.54
	2019/20	1.98	26	0.56	-4.22	2943299	5.90	9.22
	2020/21	3.21	27	0.35	-4.42	2676493	4.13	5.57
	2021/22	2.41	28	0.49	55.38	3154571	4.17	6.22
	2022/23	2.32	29	0.54	61.61	6668145	6.01	9.23
SICL	2013/14	1.28	9	1.35	14.85	1376836	9.52	22.36
	2014/15	1.30	10	1.33	28.79	1862659	11.79	27.48
	2015/16	1.77	11	0.87	47.92	2661597	11.52	21.53
	2016/17	1.73	12	0.94	36.93	3439003	10.47	20.31
	2017/18	1.70	13	0.96	21.56	4256961	9.38	18.38
	2018/19	1.68	14	0.84	2.94	4728740	8.49	15.60
	2019/20	2.02	15	0.71	0.98	5062113	8.05	13.77
	2020/21	2.38	16	0.46	13.06	5396416	5.77	8.45
	2021/22	2.51	17	0.44	24.34	6523453	4.22	6.07
	2022/23	2.72	18	0.41	9.03	6939437	5.81	8.17
SIL	2013/14	1.41	7	1.31	36.23	1096547	10.99	25.42
	2014/15	1.37	8	1.26	18.54	1483467	11.46	25.86
	2015/16	1.48	9	1.22	19.92	1856625	10.02	22.21
	2016/17	1.51	10	1.30	28.88	2610659	8.60	19.76
	2017/18	1.65	11	1.15	19.08	3094234	9.54	20.49
	2018/19	1.69	12	1.35	4.07	4538694	5.39	12.69
	2019/20	1.72	13	1.05	8.13	4538694	7.29	14.93
	2020/21	1.89	14	0.86	17.18	4744196	7.38	13.74
	2021/22	1.89	15	0.84	10.93	5336337	6.93	12.74
	2022/23	2.13	16	0.66	6.38	10532290	3.45	5.73

Source: Annual Reports of Sample Insurance Companies

APPENDIX -IV

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AGE	50	7.00	29.00	18.5000	6.01444
LIQ	50	1.28	3.22	1.8866	.46649
LEV	50	.35	2.07	.8972	.35236
PG	50	-73.23	70.89	15.7446	22.65457
LSIZE	50	5.89	7.02	6.4739	.26116
ROA	50	3.45	12.71	7.9424	2.20483
ROE	50	5.57	27.48	15.4506	5.92830
Valid N (listwise)	50				

Source: SPSS version 26

APPENDIX -V

Pearson Correlation Coefficients

		AGE	LIQ	LEV	PG	LSIZE	ROA	ROE
AGE	Pearson Correlation	1	.471**	-.479**	-.170	.243	-.478**	-.562**
	Sig. (2-tailed)		.001	.000	.239	.088	.000	.000
	N	50	50	50	50	50	50	50
LIQ	Pearson Correlation	.471**	1	-.860**	-.323*	.541**	-.643**	-.806**
	Sig. (2-tailed)	.001		.000	.022	.000	.000	.000
	N	50	50	50	50	50	50	50
LEV	Pearson Correlation	-.479**	-.860**	1	.138	-.576**	.506**	.787**
	Sig. (2-tailed)	.000	.000		.340	.000	.000	.000
	N	50	50	50	50	50	50	50
PG	Pearson Correlation	-.170	-.323*	.138	1	-.229	.297*	.275
	Sig. (2-tailed)	.239	.022	.340		.110	.036	.053
	N	50	50	50	50	50	50	50
LSIZE	Pearson Correlation	.243	.541**	-.576**	-.229	1	-.459**	-.586**
	Sig. (2-tailed)	.088	.000	.000	.110		.001	.000
	N	50	50	50	50	50	50	50
ROA	Pearson Correlation	-.478**	-.643**	.506**	.297*	-.459**	1	.923**
	Sig. (2-tailed)	.000	.000	.000	.036	.001		.000
	N	50	50	50	50	50	50	50
ROE	Pearson Correlation	-.562**	-.806**	.787**	.275	-.586**	.923**	1
	Sig. (2-tailed)	.000	.000	.000	.053	.000	.000	
	N	50	50	50	50	50	50	50

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

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

Source: SPSS version 26

APPENDIX -VI

Multiple Regression Analysis of Sample Insurance Companies (On ROA)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.707[a]	.500	.443	1.64519

a. Predictors: (Constant), LSIZE, PG, AGE, LIQ, LEV

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	119.109	5	23.822	8.801	.000[b]
	Residual	119.093	44	2.707		
	Total	238.202	49			

a. Dependent Variable: ROA
b. Predictors: (Constant), LSIZE, PG, AGE, LIQ, LEV

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	29.020	8.365		3.469	.001		
	AGE	-.095	.045	-.259	-2.102	.041	.749	1.335
	LIQ	-3.199	1.087	-.677	-2.942	.005	.215	4.657
	LEV	-2.039	1.456	-.326	-1.400	.169	.210	4.767
	PG	.003	.012	.032	.266	.792	.795	1.258
	LSIZE	-1.777	1.124	-.211	-1.582	.121	.642	1.559

a. Dependent Variable: ROA

Source: SPSS version 26

APPENDIX -VII

Multiple Regression Analysis of Sample Insurance Companies (On ROE)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.859[a]	.738	.708	3.20383

a. Predictors: (Constant), LSIZE, PG, AGE, LIQ, LEV

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1270.453	5	254.091	24.754	.000[b]
	Residual	451.640	44	10.265		
	Total	1722.093	49			

a. Dependent Variable: ROE
b. Predictors: (Constant), LSIZE, PG, AGE, LIQ, LEV

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	50.148	16.291		3.078	.004		
	AGE	-.209	.088	-.212	-2.377	.022	.749	1.335
	LIQ	-4.907	2.117	-.386	-2.317	.025	.215	4.657
	LEV	4.165	2.836	.248	1.469	.149	.210	4.767
	PG	.011	.023	.041	.468	.642	.795	1.258
	LSIZE	-3.935	2.188	-.173	-1.798	.079	.642	1.559

a. Dependent Variable: ROE
Source: SPSS version 26

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