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Effect of Capital Structure on financial Performance of insurance companies in Nepal

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Abstract
The main purpose of the study is to measure the effect of capital structure on financial Performance of insurance companies in Nepal. The panel least squares regression model was used to analyze the balance data of Fourteen Insurance companies for the years 2013–2020, with 126 observations. Total debt ratio, equity to total assets, firm size, liquidity ratio, and assets tangibility are independent variables, and return on asset (ROA) is a dependent variable. The necessary data are collected from the annual report of sample Insurance, Insurance and financial statistics, and the Insurance supervision report published by the Central Bank of Nepal. The data were analyzed using pooled OLS model, random effect model and fixed effect model This study has used a descriptive and causal comparative research design. Similarly, Eviews-12 computer software has been employed for diagnosis, model fit, and analysis of data. Likewise, descriptive statistics, Pearson' s correlation analysis, and multiple regression models have been used in the study. The random effect model was taken as fitted models after the model diagnosis using Eviews-12 computer software. The regression model revealed that TDR has a negative and statistically significant impact on ROA, whereas ETTA has a positive and statistically significant impact on ROA. However, Firm size has a positive and statistically insignificant impact on ROA. The insignificant Assets tangibility result indicates that the Assets tangibility cannot be considered a significant variable for Insurance performance. So, a strong Insurance companies and a wide Financial Performance increase the profitability of the Insurance. The result concluded that equity to total assets, leverage, and assets tangibility has effects the financial performance in Nepalese insurance companies' cases.

Keywords: Profitability, Insurance companies, Total debt ratio, Equity to total assets, Firm size, Liquidity ratio, Assets tangibility

Introduction

In the insurance industry, performance is typically measured in terms of net premiums earned, profit from underwriting activities, annual turnover, returns on investment, and return on equity. Profit performance measures and investment performance measures are two types of measures. Over the last decade, the relationship between capital structure and profitability has been the subject of significant milestones. Profit not only improves insurers' solvency, but it also plays an important role in persuading policyholders and shareholders to provide funds to insurance companies (Chen and Wong, 2004) [11].

The capital structure decision is critical for any business organization's continued existence in order t returns to stakeholders (Akintoye 2008). Many studies have been conducted to investigate the relationship between financial leverage and performance. Some studies found a positive relationship between capital structure and performance (Akintoye 2008; Dare & Sola 2010, and Tayyaba, 2013) [13], whereas others found a negative relationship (Iorpev and Kwanum 2012) [18]. Nonetheless, some studies have found no link between capital structure and performance (Prahlathan & Rajan 2011).

There are dozens of studies related to capital structure and profitability with regard to banks and manufacturing enterprises in Nepal. Shrestha (1993); Pradhan and Ang (1994); Baral (1996) [7]; Ghimire (1999) [16]; Pandey (2000); Gajural (2005) [1]; Bhattarai (2016) [9]; Pradhan and Bhattarai (2016) [9]; Maharjan (2017) [44]; and Acharya (2017) are the authors of these studies (2019). However, there have been very few studies in the field of insurance companies. As a result, the current study will fill a gap in the insurance industry. The study's objectives were to investigate the effects of capital structure on the financial performance of insurance companies in Nepal. The research focuses on 14 insurance companies and 126 observations. The samples were collected using a random sampling technique. The tested independent variables were drawn from a variety of national and international literature reviews. The independent variables tested on return on assets and earning per share were total debt ratio, equity to total assets, leverage, firm size, liquidity ratio, and asset tangibility. The study discovered that equity to total assets, leverage, and asset tangibility have an effect on financial performance in the cases of Nepalese insurance companies.

The liquidity management duty is to determine the need for funds to meet financial obligations and to ensure the availability of cash or collateral to meet those needs as soon as they become due. This is accomplished by coordinating the various sources of funds available to the institution under normal and stressed conditions (Chen and Wong, 2004) [11]. According to Niresh (2012), banking liquidity management is simply meeting financial commitments, whether it is withdrawing from a current account, interbank deposit, or maturing commercial paper issues.

Theoretical and empirical review

The basic premise of organizational life stage theory is that firms, like living organisms, go through a series of life stages that begin with birth and end with death.

According to Utami and Inanga (2012), firms at different stages of their life cycle exhibit different characteristics, particularly in terms of information asymmetry. Growth firms have more information asymmetry than mature firms. This is because mature and older firms are more closely followed by analysts and are better known to investors, and thus should face fewer information asymmetry issues. This theory recognized a link between capital structure and the firm's life stage. This theory holds that the stages of birth and growth are typical of a higher use of debt than equity. The mature companies reduce their debt levels, which rise again in the decline stage.

To examine the relationship between capital structure and firm value in Bangladesh, (Chowdhury, & Chowdhury, 2010) used share price as a proxy for value and different ratios for capital structure decisions. The intriguing finding suggests that maximizing shareholder wealth necessitates a perfect combination of debt and equity, whereas cost of capital has a negative correlation in this decision and must be kept as low as possible. This also shows that changing the capital structure composition during the firm's life stages can increase its market value. Nonetheless, this could have significant policy implications for finance managers because they can use debt to form optimal capital structures in order to maximize shareholder wealth.

Empirical review

The major literature reviews relevant to the Study on a national & International scale are summarized below. Leverage has a significant & Positive relationship with financial Performance (Baral, 1996) [7]. GhimireÚs research discovered a negative & relationship between leverage (1999) [16]. Similarly, Saeedi and Mahmoodi (2011) used a Sample of 320 from 2002 to 2009 to investigate the relationship between capital Structure & firm Performance of Tehran Stock exchange listed firms. As independent variables, the study tested three dimensions of leverage: short term, long term, & total debt. The dependent variables for firm financial Performance are Return on Assets.

According to Salim and Yadav (2012), company financial Performance ROA, ROE, & EPS have a negative impact on long term debt (LTD), Short term debt, & total debt ratio(TD), whereas growth has a Positive impact on financial Performance across all sectors in Malaysia. Furthermore, TobinÚs Q has a Positive & significant impact on both short-term & long-term debt (LTD).

Almajali *et al*. (2012) used Secondary data from 25 jordanian insurance companies from 2002 to 2007 to examine the financial Performance of Jordanian insurance companies. According to the findings, the leverage, liquidity size, & management competence indexes all have a statistically significant positive effect on financial Performance.

However, Dogan (2013) discovered that financial leverage ratio has a negative effect on return on Assets. Furthermore, firm size has a Positive & Statistically significant effect on the Performance of insurance companies listed on the Borsa Istanbul, whereas firm age has a negative & Statistically Significant effect.

Bhattarai examined the effect of capital structure on firm Performance by controlling for firm size, tangibility,and growth rate in a sample of 8 manufacturing firms listed on the Nepal Stock exchange from 2004 to 2014 . The findings revealed that leverage and tangibility were negatively related to firm Performance. Firm size was positively related to firm Performance. According to the study, capital Structure has a significant negative impact on firm Performance. The Capital Structure, firm size, & tangibility of Nepalese manufacturing firms were major determinants of firm Performance.

Using secondary data, Pradhan and Bhattarai (2016) [9] investigated the impact and significance of financial leverage on the Performance of 16 commercial banks. Firm performance variables include return on assets, return on equity & net interest margin, while financial leverage variables include debt to equity ratio, debt to total assets ratio, & long-term debt to total debt. The findings revealed that financial leverage had a negative impact on firm Performance.

Almajali and Shamsuddin (2019) investigated the impact of capital Structures on the profitability of jordanian insurance firms. From 2008 to 2017, 19 insurance companies were choosen as a part of the sample. The dependent variablesreturn on equity(ROE) & TobinÚs Q as well as the independent variables capital structure (short term debt, long term – debt, & equity financing), were used. The inflation rate & sales growth were the control variables. The findings revealed that short & long term debt correlated positively with the (ROE) but negatively with TobinÚs Q. Financial leverage was also found to be positively related to Profitability.

Kerim, Alaji, and Innocent (2019) examined the effect of capital structure on Profitability of Nigerian listed insurance firms from 2013 to 2017 using secondary data from 15 listed insurance companies 75 observations. The findings revealed that short-term debt has a negative significant effect on Profitability. Whereas long-term debt has a Positive Significant effect. Similarly, Premium growth has Positive effects on Profitability. The Preceding discussion demonstrates that studies dealing with capital structure management & its impact on bank Performance & insurance company performance are more important. Though these findings exist in the context of other countries. None existing the context of Nepal using more recent data. As a res Using secondary data, Pradhan and Bhattarai (2016) [9] investigated the impact and significance of financial leverage on the Performance of 16 commercial banks. Firm performance variables include return on assets, return on equity & net interest margin, while financial leverage variables include debt to equity ratio, debt to total assets ratio, & long-term debt to total debt. The findings revealed that financial leverage had a negative impact on firm Performance result, this research focuses on capital Structure & Financial Performance of insurance companies.

Methodology

This study examines the effect of capital structure on financial Performance of insurance companies in Nepal over the periods of 2013 to 2020 of 14 insurance companies pooled data regression. The necessary data include time series and cross sectional data were taken from the annual reports of sample insurance and NRB website. Similarly, various mathematical and statistical tools were used under the study. Descriptive and causal comparative research designs are employed. This study was used purposive sampling technique to select the sample insurance. These selected insurance for the study are:

The Model

Model 1

In this model, the dependent variable is the return on assets (ROA) indicated by the percentage of net income to total assets. Total debt ratio, equity to total assets, firm size, liquidity ratio, and asset tangibility are independent variables that are tested on return on assets. The model is presented as follows:

$$ROA = \beta 0 + \beta 1TDR + \beta 2ETA + \beta 3SIZE + \beta 4LQ + \beta 5TAN + \beta 6EPS + e$$

Model 2

In this model, the dependent variable is earnings per share (EPS) indicated by net income to the number of equity shares, in rupees per share. Total debt ratio, equity to total assets, firm size, liquidity ratio, and asset tangibility are independent variables that are tested on the price-earnings ratio. The model is presented as follows:

$$EPS = \beta 0 + \beta\ 1TDR + \beta\ 2ETA + \beta 3SIZE + \beta 4LQ + \beta 5TAN + \beta 6ROA + e$$

Where,

β0 is the constant term and β is coefficient of variable

ROA	=	Return on assets
EPS	=	Earnings per share
TDR	=	Total debt ratio
ETA	=	Equity to total assets
SIZE	=	Firm size
LQ	=	Liquidity
TAN	=	Assets tangibility
e_{it}	=	Error term

Dependent variables

Return on asset (ROA)

Return on assets is the easiest measure of the bank profitability. ROA tells the capacity of the bank generate profit from its assets management function (Kohlscheen *et al*., 2018). It is used as dependent variable under the study. Therefore, it is a frequently used financial ratio to evaluate the bank performance in the literature. It is calculated net profit after tax by total asset.

Independent variables

Total debt ratio (TDR)

Total debt to total assets is a measure of the proportion of a company's assets financed by debt rather than equity. The debt ratio (also known as the debt to assets ratio) is a ratio that measures a company's debt as a percentage of its total assets. It is calculated by dividing a company's total debt by its total assets. The debt ratio compares the total debt of a company to its total assets. This gives creditors and investors a general idea of how much leverage a company is using. The lower the percentage, the less leverage is used and the stronger the company's equity position. In general, the higher the ratio, the greater the risk that company is thought to have taken. According to Ebaid (2009), there is a significant negative relationship between ROA and the total debt to total assets ratio. Mramor and Crnigoj (2009) concluded that financial leverage (total debt to total assets ratio) and return on assets ratio have a significant negative relationship (ROA). According to Petersen and Rajan (1994), there is a significant positive relationship between profitability and debt ratio.

Equity to total assets

The equity-to-total-assets ratio reveals capital adequacy and captures the financial institution's overall safety and soundness. It indicates a finance company's ability to absorb losses and manage risk exposure with shareholders. Equity is important because it represents the true value of one's investment stake. There is a strong positive relationship between equity to total assets and firm profitability, according to Oladele, Sulaiman, and Akeke (2012). According to Borio and Zhu (2008), higher equity capital implies more prudent bank behavior. Ponce (2013) discovered a link between bank performance and capitalization. According to Ramadan (2011), a higher equity-to-total-assets ratio and investment contribute to a higher return on assets. A bank with a relatively large proportion of Capital is unlikely to earn high profits, but it is less vulnerable to risk (Goddard, Molyneux, & Wilson, 2004)

Firm size

The firm's size (total assets) is a factor that influences an insurance company's financial performance. Ozgulbas, Koyuncugil, and Yilmaz (2006) discovered that large scale firms outperform small scale firms. Velnampy and Nimalathasan (2010) investigated the relationship between firm size and profitability and discovered a positive relationship. Oser, Hogarth-Scott, and Riding (2000) discovered that firm size has a positive effect on a firm's financial performance. In many ways, the firm's size influences its financial performance. Large firms can take advantage of economies of scale and scope, making them more efficient than small firms. The size of an insurance company can be determined by its net premium, which is the premium earned after deducting the reinsurance ceded.

Liquidity ratio

The degree to which debt obligations due in the next twelve months can be paid from cash or assets that will be converted into cash is referred to as liquidity. Insurance liquidity refers to an insurer's ability to meet immediate commitments to policyholders without increasing profits on underwriting and investment activities or liquidating financial assets. The cash and bank balances must be sufficient to meet the immediate liabilities for claims that are due for payment but have not yet been settled (Chaharbaghi & Lynch, 1999). Wang (2002) concluded that liquidity has a negative relationship with financial performance as measured by returns on assets (ROA) or returns on equity (ROE) (ROE). Dawood (2014) investigated the negative relationship between liquidity and profitability. Bourke (1989) reached a positive conclusion. A liquid company is one that keeps enough liquid assets and cash on hand, as well as the ability to raise funds quickly from other sources, to meet its payment obligations and financial commitments on time.

Assets tangibility

An asset with fictitious assets is one with tangibility. The tangibility of assets is an important variable to consider when describing the debt to total assets ratio. Tangible assets describe the firm's capital structure. Fixed assets, such as machinery and buildings, and current assets, such as inventory, are examples of tangible assets. Pouraghajan *et al*. (2012) discovered a statistically significant relationship between asset tangibility and ROA and ROE measures. Wabita (2013) discovered that the tangibility of an insurance company's assets has a positive effect on firm performance. Tangibility has a positive and significant impact on the performance of Ethiopian insurance companies, according to Mehari and Aemiro (2013). According to Shergill and Sarkaria (1999), asset tangibility is positively related to financial performance. According to Rusibana (2016), there is a positive and significant relationship between asset tangibility and firm performance (ROE).

Results and finding

The necessary data are gathered from annual reports and the NRB' s key financial indicators report of sample insurance. In this section, collected data are presented and analyzed using different mathematical and financial tools and techniques.

Descriptive statistics are used to summarize and describe the characteristics of a set of data under study. It also provides a basis for more advanced inferential statistical analysis.

Table 1: Descriptive Statistics for Non-life Insurance Company

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	56	-20.83	18.62	5.92	5.11
Earnings per share	56	-85.67	84.88	30.22	23.42
Total Debt Ratio	56	5.52	90.45	51.91	17.23
Equity to Total Assets Ratio	56	3.74	94.12	43.60	15.63
Firm Size	56	581.65	20023.55	3712.71	3207.02
Liquidity Ratio	56	.82	17.89	1.97	2.37
Assets Tangibility	56	.43	16.07	3.9486	3.41
Valid N (listwise)	56				

Descriptive statistics indicates the position of financial performance as return on assets which ranges from negative 20.83 percent to 18.62 percentages leading to an average of 5.92 percent. Earnings per share vary from negative Rs 85.67 to a maximum of Rs 84.88 with an average of Rs 30.22. The position of capital structure variables such as total debt to total assets varies from 5.52 percent to 90.45 percent leading to an average of 51.91 percent and average equity to total assets ratio is 43.60 percent. Likewise, there is a great fluctuation in the size of the insurance companies which is minimum of Rs 581.65 million to maximum of Rs 20023.55 million with an average of Rs 3712.71. The mean value of liquidity is 1.97 with a maximum of 17.89 to a minimum of 0.82. The ratio of tangible assets to total assets shows a maximum of 16.07 percent and a minimum of 0.43 percent with an average of 3.41 percent in the non-life insurance industry of Nepal.

Inferential statistics

Correlation analysis

Correlation analysis is a statistical tool to measure the strength of linear association between two or more than two variables. The value of correlation coefficient always lies between -1 to +1. Correlation coefficient +1 means there is strongly positively association between the variables while correlation coefficient -1 means there is strongly negatively association between the variables. Similarly, correlation coefficient 0 means there is no association between the variables.

Table 2: Correlation Analysis of different Variables

	Return on Assets	Earnings per share	Total Debt Ratio	Equity to Total Assets Ratio	Firm Size	Liquidity Ratio	Assets Tangibility
Return on Assets	1						
Earnings per share	.750**	1					
Total Debt Ratio	-.126	-.013	1				
Equity to Total Assets Ratio	.286*	-.086	-.693**	1			
Firm Size	-.231	.182	-.339*	-.256	1		
Liquidity Ratio	-.094	.155	-.518**	-.149	.647**	1	
Assets Tangibility	.302*	.303*	.156	.020	-.234	-.181	1
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

Table 4.9 reports Pearson correlation matrix among the measures of capital structure and all independent variables for all sample firms for the different periods. The table shows that there is significant positive relationship between earning per share and return on Assets at 1 percent level of significant. It indicates that increase in Earning per share leads to increase in Return on Assets. Similarly, there is negative insignificant relation of total debt ratios with return on assets and earning per share. There is positive relationship between equity to total assets ratio with return on assets at 5 percent level of significant. It indicates that increase in equity to total assets ratio leads to increase in return on assets. There is negative insignificant relationship of firm size with return on assets but positive insignificant relationship with earning per share. There is negative insignificant relationship of liquidity ratio with return on assets but positive insignificant relationship with earning per share. There is positive significant relationship of assets tangibility with return on assets and earning per share at 5 percent level of significant.

Regression analysis

The results are based on selected seven non –life insurance Companies with 56 observations for the period of 2013/14 to 2020/21 by using the linear regression model. The model is ROA= β0+ β1TDR + β2ETA + β3SIZE + β4LQ +β5TAN+β6EPS + e. The cross-sectional variables used as independent variables are TDR (total debt ratio), ETA (equity to total assets ratio), SIZE (total assets in millions of rupees), LQ (ratio of current assets and current liabilities), TAN (tangible assets to total assets) and EPS (earning per share). The error term is represented as e. The dependent variable is ROA (return on assets).

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.883[a]	.780	.753	2.54539
a. Predictors: (Constant), Earnings per share, Total Debt Ratio, Assets Tangibility, Firm Size, Liquidity Ratio, Equity to Total Assets Ratio				

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1123.003	6	187.167	28.888	.000[b]
	Residual	317.471	49	6.479		
	Total	1440.474	55			
a. Dependent Variable: Return on Assets						
b. Predictors: (Constant), Earnings per share, Total Debt Ratio, Assets Tangibility, Firm Size, Liquidity Ratio, Equity to Total Assets Ratio						

Table 5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.183	6.830		.612	.543
	Total Debt Ratio	-.056	.066	-.187	-.847	.401
	Equity to Total Assets Ratio	.040	.064	.122	.627	.534
	Firm Size	-.001	.000	-.385	-3.647	.001
	Liquidity Ratio	-.128	.301	-.060	-.426	.672
	Assets Tangibility	-.043	.111	-.029	-.386	.701
	Earnings per share	.185	.016	.847	11.500	.000
a. Dependent Variable: Return on Assets						

The result shows that the beta coefficients are negative for total debt ratio, firm size, liquidity ratio and assets tangibility. This indicates that the ratio of total debt ratio, firm size, liquidity ratio and assets tangibility impacts negatively on return on assets. This finding is similar to the finding of Khan and Mitra (2014). Beta coefficients are positive for equity to total assets ratio and earning per share. This indicates that an increase in equity to total assets ratio and earning per share increase the return on assets. The finding is consistent with the results. The F value of 28.888 is also significant at a 1 % level of confidence indicates the fit of the model presented. R2 of .780 suggests that 78 percent of the financial performance can be explained by the variations in the whole set of independent variables.

In above table p-value of total debt ratio is more than 0.05 at 5 percent level of significance so alternative hypothesis (H11) is rejected. The beta coefficient of total debt ratio is negative with return on assets. This shows that there is a negative insignificant effect of total debt ratio on return on assets.

In above table p-value of Equity to total assets ratio is more than 0.05 at 5 percent level of significance so alternative hypothesis (H12) is rejected. The beta coefficient of equity to total assets ratio is positive with return on assets. This shows that there is a positive insignificant effect of equity to total assets ratio on return on assets.

In above table p-value of Size is less than 0.05 at 5 percent level of significance so alternative hypothesis (H13) is accepted. The beta coefficient of Size is negative with return on assets. This shows that there is a negative significant effect of size on return on assets.

Since p-value of Liquidity is more than 0.05 at 5 percent level of significance so alternative hypothesis (H14) is rejected. The beta coefficient of Liquidity is negative with return on assets. This shows that there is a negative insignificant effect of Liquidity on return on assets.

Since p-value of Assets Tangibility is more than 0.05 at 5 percent level of significance so alternative hypothesis (H15) is rejected. The beta coefficient of Assets tangibility is negative with return on assets. This shows that there is a negative insignificant effect of Assets Tangibility on return on assets.

ROA= 4.183-.056 TDR +.040 ETA -.001 SIZE -.128 LQ -.043 TAN+.185 EPS + e.

From the above table no.4.12 it is found that the value of standardized Beta Coefficients of Total debt Ratio, Equity to Total Assets, Firm Size, Liquidity Ratio Assets Tangibility and Earning per share are-.187,.122,-.385,-.060,-.029 and .847 respectively.

The above regression equation states one unit change in Total Debt ratio will lead Return on Assets to change with -0.056 keeping all other independent variable i.e. Equity to Total Assets Ratio, Firm Size, Liquidity Ratio,Assets Tangibility and Earning per share constant.

The above regression equation states one unit change in Equity to Total Assets Ratio will lead Return on Assets to change with 0.040 keeping all other independent variable i.e. Total Debt ratio,Firm Size, Liquidity Ratio, Assets Tangibility and Earning per share constant.

The above regression equation states one unit change in Firm Size will lead Return on Assets to change with -0.001 keeping all other independent variable i.e. Total Debt ratio, Equity to Total Assets Ratio, Liquidity Ratio, Assets Tangibility and Earning per share constant.

The above regression equation states one unit change in Liquidity Ratio will lead Return on Assets to change with -0.128 keeping all other independent variable i.e. Total Debt ratio, Equity to Total Assets Ratio, Firm Size,Assets Tangibility and Earning per share constant.

The above regression equation states one unit change in Assets Tangibility will lead Return on Assets to change with -0.043 keeping all other independent variable i.e. Total Debt ratio, Equity to Total Assets Ratio, Firm Size, Liquidity Ratio and Earning per share constant.

The above regression equation states one unit change in Earning per share will lead Return on Assets to change with .185 keeping all other independent variable i.e. Total Debt ratio, Equity to Total Assets Ratio, Firm Size,Liquidity Ratio, Assets Tangibility and Earning per share constant.

Discussion

The main objective of this study is to identify relationship between Total debt Ratio, Equity to Total Assets Ratio, Firm Size, Liquidity Ratio and Assets Tangibility with profitability and evaluate effect Total debt Ratio, Equity to Total Assets Ratio, Firm Size, Liquidity Ratio and Assets Tangibility on profitability. For that several five independent variables: Total debt Ratio, Equity to Total Assets Ratio, Firm Size, Liquidity Ratio and Assets Tangibility and dependent variables: Return on Assets and Earning per have been taken. Descriptive statistic, correlation and regression analysis have been conducted for analysis of data. There is positive relationship between equity to total assets ratio with return on assets .This finding is similar to Oladele, Sulaiman, and Akeke (2012). There is positive significant relationship of assets tangibility with return on assets and earning per share at 5 percent level of significant. This finding is consistent with Shergill and Sarkaria (1999) and Rusibana (2016).There is positive significant effect of Earning per share with Return on Assets. This finding is similar to the finding of Khan and Mitra (2014).There is negative significant effect of Firm size with Return on Assets where as positive significant effect of Firm Size with Earning per share .This finding is similar with Oser *et al*. (2000) & Kipesha (2013).

Conclusion

The conclusion of this study is that firm size has been found to be an important factor affecting Return on Assets and Earning per share as beta coefficients are consistently positive and statistically significant with Return on Assets and negative and statically significant with Earning per share.The beta coefficients are negative and statically insignificant for total debt ratio, liquidity ratio and assets tangibility with return on assets. The beta coefficients are positive and statically insignificant for equity to total assets ratio with return on assets. The beta coefficients are negative and statically insignificant for equity to total assets ratio with earning per share. The beta coefficient of the total debt ratio, liquidity ratio, assets tangibility, and return on assets are positive and statically insignificant with Earning per share. This study can be helpful to investors, shareholders, security analysts, academicians, and students of finance to know the main factors that affect the capital structure of Nepalese non-life insurance company. It would equally valuable to extend the study in other firms like financial and non-financial, listed and none listed firms of the country by adding other variables like inflation, GDP growth, interest rate, corporate governance, legal framework, and impact of the country's financial system could be added.

Implication

The recommendations in this report are based on the findings of the survey. Considering the findings of the study, recommendations are following:

Since the research study has been focused only on non-life insurance company this study can be useful to other researcher to conduct such studies in other types of banks and financial institution.

Besides, more variables could be added into the study in order to achieve more consistency on statistical results.

Data set for longer period, more sample of non-life insurance company with non-linear regression models can also be tested to have improved and more comprehensive results.

A similar study should be done whereby the data collection relies on primary data that is, in-depth questionnaires and interview guide so as to complement this study.

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