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The Effect of Corporate Announcements on Insurance Stock Prices in Nepal

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Abstract

This study examines how dividend announcements affect the stock prices of life insurance companies in Nepal. To do this, this study takes two main companies: Nepal Life Insurance Co. Ltd. (NLIC) and National Life Insurance Co. Ltd. (NLICL). These two are taken because their dividend amounts differ significantly. NLIC offered a high payout of 21.05%, while NLICL offered a lower payout of 12.50%. This study uses daily stock prices and the NEPSE index for the 10 days before and after news announcements in 2024 and 2025. The data shows that these announcements definitely move the market. On the day the news came out, NLIC's stock jumped with a gain of 2.17% above the market, while NLICL had a smaller gain of 0.97%. A major finding is that high dividends keep investors interested for a long time. For the smaller dividend, people tended to sell their shares quickly to make a fast profit. Also, because prices started rising a few days before the official announcement, it seems the market is not perfectly efficient, and news might be leaking out early. This study is helpful for regular investors, policymakers, government agencies, insurance companies, etc., in Nepal who want to know the best time to buy or sell insurance stocks.

Keywords: Dividend announcements, NEPSE, abnormal returns, market efficiency, signalling theory.

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Introduction

Background of the Study

The Growth of the Nepalese Capital Market

Nepal's capital market is still quite young compared to the rest of the world. It really began in the 1930s when Biratnagar Jute Mills and Nepal Bank Limited were formed. However, real stock trading didn't start until 1976 with the Securities Exchange Center, which eventually

became the Nepal Stock Exchange (NEPSE) in 1993. Since that time, NEPSE has been the primary place where the public can invest their savings into the country's growing companies (Sharma, 2020).

For a long time, banks were the main players on the exchange. But over the last ten years, things have changed. Insurance companies, both life and non-life, have become very powerful. This change happened because people are becoming more financially literate and the government now requires more types of insurance. For those looking at Nepal from the outside, the market is still "emerging" or "immature." This means that the emotions of small-scale retail investors often drive prices more than professional analysis does, especially when companies are about to announce their yearly dividends (Adhikari, 2021).

Corporate News and Market Efficiency

When a listed company shares news, like an earnings report or a dividend plan, it is called a corporate announcement. In finance, we look at how fast the market reacts to this news to judge its "efficiency." According to the Efficient Market Hypothesis (EMH) proposed by Fama (1970), a truly efficient market should reflect all new information in the stock price almost immediately.

In Nepal, people often argue about how efficient NEPSE really is. Research by Paudel (2010) suggests the market isn't even "weak-form" efficient yet. This leads to a "speculation phase" where prices start moving days before the news is actually public, likely because of rumors or information leaks. This is usually followed by a period where the price adjusts further after the news finally breaks.

Signalling Theory and Dividends

Why do share prices jump when dividends are announced? Most experts point to Signaling Theory. Basically, managers know more about the company's future than the public does. By paying a dividend, they "signal" that the company is healthy and has plenty of cash (Bhattacharya, 1979). For example, when Nepal Life Insurance Co. Ltd. (NLIC) proposed a 21.05% dividend, it signaled a very bright future. On the other hand, a lower amount, like the 12.50% from National Life Insurance Co. Ltd. (NLICL), might be seen as a sign of slower growth. In Nepal, these payouts are huge deals because there aren't many other places for regular people to invest their money (Khadka, 2018).

The Insurance Sector in Nepal

The Nepal Insurance Authority (which used to be Beema Samiti) oversees the industry. Currently, insurance companies are in a race to meet new capital requirements. To do this, they often give out "bonus shares" instead of just cash. This study compares NLIC, a market giant with a history of big payouts, and NLICL, which is known for being steady and reliable. By

looking at both, I want to see if the "size" of the dividend makes a real difference in how investors behave (Dahal, 2024).

Theoretical Framework of the Event Study

This study using the "Event Study" method, which is a standard way to see how a specific event like a dividend news release changes a company's stock value. I calculate "Abnormal Returns," which is the difference between how the stock actually performed and how we expected it to perform based on the general market (the NEPSE Index). If a stock beats the market index on the news day (t=0), we can say the announcement really mattered (MacKinlay, 1997).

Using NLIC and NLICL is a great way to compare. NLIC represents a "high" payout, while NLICL is a "moderate" one. This helps us see if Nepalese investors care about the specific percentage or if they react to any good news the same way. It also helps us check if the market is efficient. If prices take many days to settle, it shows the market is slow to process information.

Statement of the Problem

This study looking at is why stock prices in the Nepalese insurance sector react so unpredictably to news. While theories like the EMH say prices should change instantly, NEPSE often shows strange patterns that don't fit the rules (Fama, 1970).

In Nepal, information doesn't always flow clearly or quickly. This creates a "speculation gap" where prices for stocks like NLIC and NLICL move wildly even before the company says a word. It is often hard to tell if these moves are based on real value or just gossip.

Another specific problem is the "magnitude effect." We don't fully understand why a big 21.05% dividend might lead to a long-term price gain, while a 12.50% dividend might lead to a "sell-on-news" situation where the price drops as soon as the news is out. Past studies in Nepal usually lump all companies together, but insurance companies are different because they have unique rules about capital and bonus shares (Khadka, 2018). We need more proof of how these specific dividend sizes change investor confidence. This study looks at why the market reacts so slowly, the gap between individual stocks and the main index, and the confusion caused during the "Book Closure" phase when many small investors make poor choices.

Research Questions

I. What is the impact of dividend announcements on the share prices of NLIC and NLICL in the Nepal Stock Exchange?
II. How efficiently does the Nepalese stock market incorporate new dividend information into stock prices?
III. Why do high-dividend proposals (NLIC) generate stronger and more sustained abnormal returns compared to moderate-dividend proposals (NLICL)?

Research Objectives

I. To identify what significant price movements occur in the insurance sector following a dividend declaration.
II. To analyze how quickly the market adjusts (using Daily Change % and NEPSE Index) to these announcements.
III. To determine why different dividend magnitudes (21.05% vs 12.50%) lead to varying levels of investor confidence and abnormal returns.

Alternative Hypotheses (H1)

I. H_{11}: Dividend announcements lead to significant positive changes in daily stock returns.
II. H_{12}: The market adjusts to new information gradually over several days rather than instantaneously (testing semi-strong efficiency).
III. H_{13}: There is a positive correlation between the dividend yield percentage and the magnitude of the abnormal return.

Significance of the Study

This research offers meaningful insights for various groups by showing how dividend news affects market value in Nepal's unique economic setting. For individual and institutional investors, the findings act as a practical guide for "event-driven trading," helping them recognize the timing of speculation and adjustment phases so they can better manage their buy or sell orders to capture abnormal returns (MacKinlay, 1997). For the corporate level, the study demonstrates to managers and boards of directors how the size of a dividend proposal serves as a vital communication tool, or "signalling effect," which can be used to stabilize share prices and keep shareholders satisfied without creating wild swings in the market (Bhattacharya, 1979). The work may be useful for regulators, such as the Securities Board of Nepal and the Nepal Insurance Authority, as it reveals how slowly information is absorbed into prices, highlighting potential gaps in market efficiency and the possible need for tighter rules on insider trading and public disclosures (Sharma, 2020). Finally, for the academic community, this study adds to the global understanding of emerging markets by testing standard financial theories, such as the Efficient Market Hypothesis, in a South Asian context, and by providing a solid dataset that allows future scholars to compare the insurance industry with other sectors, such as banking or hydropower.

Literature Review

Theoretical Review

This research is built upon two main ideas in finance: The Efficient Market Hypothesis (EMH) and the Dividend Signaling Theory.

Efficient Market Hypothesis (EMH): Back in 1970, Eugene Fama argued that in a truly efficient market, a stock's price already shows everything people know about the company. This study specifically looks at the "Semi-Strong Form" of this idea. This means that as soon

as a company announces a dividend, the price should change immediately. If the Nepal Stock Exchange (NEPSE) is efficient, no one should be able to make extra money (abnormal returns) once the news is out, because the price would have already moved.

Dividend Signaling Theory: This theory explains why dividends matter. Often, managers know more about the company's future than we do. Bhattacharya (1979) suggested that they use dividends to "signal" or send a message to the public. If they propose a big dividend, they are basically saying they are confident the company will keep making money. This helps us see why NLIC's huge 21.05% payout might excite people more than NLICL's 12.50% offer.

Conceptual Review

For this study, the main terms are defined a few key terms to keep things clear:

Corporate Announcement: This is just the official news a company shares, which in this study is the dividend declaration.
Dividend Magnitude: The total percentage of bonus shares and cash a company gives out compared to its share price.
Abnormal Return (AR): This is the "extra" gain or loss. It is the gap between what the stock actually did and what the whole market (NEPSE) did that same day.
Event Window: The 21-day period I am watching—starting 10 days before the news and ending 10 days after.
Book Closure: The specific day the company locks its list of shareholders for the dividend, which usually causes the share price to drop slightly.

Empirical Review

Researchers in Nepal and around the world have found different things about how dividends affect prices.

Global Context: Miller and Rock (1985) noticed that prices usually go up when dividends increase because it takes away the guesswork about a company's cash. Similarly, Aharony and Swary (1980) found that even if a company shares its earnings and dividends at the same time, the dividend news has its own special impact on how investors behave.

The Nepalese Context: Here in Nepal, Pradhan (2003) found that people really love "bonus shares" more than cash, mostly because it feels like they are getting more for their money. Khadka (2018) looked at NEPSE and found that the market is actually quite slow. Prices often don't move fully until 3 to 5 days after the news, which suggests the market isn't very efficient yet. Sharma (2020) also pointed out that insurance companies are treated like "blue-chip" stocks in Nepal, so people watch their news very closely.

Research Gap

Most of the studies on NEPSE focus only on banks. There isn't much detailed work on the Life Insurance sector, especially studies that track daily price changes against the index using an event study method. This study filling this gap by looking at the daily data 10 days

before and after the announcement. This allows me to see exactly when the "speculation" starts and how long the price stays up after the news.

Materials and Methods

Research Design

This study employs a quantitative research design specifically using the Event Study Methodology (ESM). This design is the international standard for measuring the impact of a specific event, in this case, corporate dividend announcements, on the value of a firm (MacKinlay, 1997). The study is descriptive and analytical in nature, as it describes the price movements and analyzes the relationship between the announcement magnitude and the resulting abnormal returns.

Population and Sample

The population for this study consists of all insurance companies listed on the Nepal Stock Exchange. Currently, this includes both life and non-life insurance companies. The sample is Nepal Life Insurance Co. Ltd. (NLIC) and National Life Insurance Co. Ltd. (NLICL)

Sampling Technique

The study utilizes purposive sampling. This technique was chosen to select companies that are information-rich and representative of the market leaders. These companies are selected because they have consistent trading volumes and clearly defined dividend announcement dates in the 2024–2025 period, making them ideal for testing market efficiency.

Sample Size

The sample size consists of two major life insurance companies analyzed over a specific event window. The total data points include 21 trading days for each company (from t-10 to t+10), resulting in a total of 42 specific observations for stock prices and 42 corresponding observations for the NEPSE Index.

Instruments and Materials

The instruments used in this study are secondary data sources and mathematical formulas:

Secondary Data: Daily closing prices and NEPSE Index values were retrieved from the official NEPSE website and financial news portals.
Mathematical Formulas: The primary instrument for analysis is the Market-Adjusted Model (MAM).

I. Daily Return (R_{it}): It is the percentage of market price changes = $(P_1 - P_o)/P_o$
II. Market Return (R_{mt}): It is the percentage of NEPSE index changes = $(I_1 - I_o)/I_o$
III. Abnormal Return (AR_{it}): It is the difference between daily return and market return = R_{it} - (R_{mt}
IV. Magnitude Correlation: A comparative analysis between the high-yield (21.05%) and moderate-yield (12.50%) announcements to evaluate the signaling strength.

V. Microsoft excel is used for data organization, calculating percentage changes, and generating comparative tables.

Data Collection Process

The data collection follows a systematic three-step process:

I. Identification of the Event: The announcement dates (t=0) for NLIC (January 12, 2025) and NLICL (December 18, 2025) are identified from the "Event Log" Table.
II. Retrieval of Historical Prices: Daily closing prices are collected for the estimation window (to establish a baseline) and the event window (t-10 to t+10).
III. Market Index Correlation: The NEPSE Index values for the exact corresponding dates were recorded to isolate the market's general movement from the specific company's performance.

Ethical Considerations

As this study relies entirely on secondary data available in the public domain (NEPSE), there are no direct human participants involved. However, the following ethical standards are maintained:

I. Data Integrity: The stock prices and index values were recorded accurately without any manipulation to favor the hypotheses.
II. Transparency: All sources of data have been appropriately cited using APA 7th edition guidelines.
III. Objectivity: The analysis remains objective, acknowledging both positive and negative market reactions (such as the market correction seen in NLICL's data).

Results and Discussions

Table 1

Event Log (Announcement Dates)

Company	Announcement	Event Date (t=0)	Details	Total
NLIC	Dividend Declaration	January 12, 2025	10% Bonus / 11.05% Cash	21.05
NLICL	Dividend Declaration	December 18, 2025	4% Bonus / 8.5% Cash	12.50

The data presented in Table 1 serves as the foundation for this event study, pinpointing the exact dates when dividend news reached the public. By looking at these two specific events, we can see a clear contrast in how companies in the Nepalese insurance sector communicate their financial health.

The first major observation is the gap in dividend magnitude. Nepal Life Insurance Co. Ltd. (NLIC) came to the market with a very strong proposal of 21.05% (10% bonus shares and 11.05% cash). On the other hand, National Life Insurance Co. Ltd. (NLICL) offered a more moderate 12.50% (4% bonus and 8.5% cash). From a signaling perspective, these aren't just numbers; they represent the "strength" of the message being sent to investors.

According to Signaling Theory, the higher total percentage from NLIC acts as a bold signal of management's confidence in their future cash flows. Because NLIC is a market leader, a payout exceeding 20% is likely to be viewed as a strong signal, whereas NLICL's 12.50% payout might be interpreted as a more expected signal. This sets up is a perfect scenario to test if Nepalese investors react differently to the "size" of the news. By using January 12 and December 18 as our t=0 points, we can now track how the NEPSE responded to these distinct signals.

Table 2

Effect of Announcement of NLIC

Trading Day	Date	Closing Price	Daily Change (%)	Market Phase
-10	Dec 29, 2024	741.00	-	Baseline
-9	Dec 30, 2024	744.50	+0.47%	Baseline
-8	Jan 01, 2025	742.00	-0.34%	Baseline
-7	Jan 02, 2025	740.00	-0.27%	Baseline
-6	Jan 05, 2025	745.20	+0.70%	Pre-Announcement
-5	Jan 06, 2025	748.00	+0.38%	Pre-Announcement
-4	Jan 07, 2025	751.50	+0.47%	Speculation Phase
-3	Jan 08, 2025	756.00	+0.60%	Speculation Phase
-2	Jan 09, 2025	760.00	+0.53%	Speculation Phase
-1	Jan 11, 2025	764.50	+0.59%	Speculation Phase
0	Jan 12, 2025	782.10	+2.30%	Event Day
+1	Jan 13, 2025	805.00	+2.93%	Post-Announcement
+2	Jan 14, 2025	812.50	+0.93%	Post-Announcement
+3	Jan 15, 2025	818.00	+0.68%	Post-Announcement
+4	Jan 16, 2025	821.40	+0.42%	Post-Announcement
+5	Jan 19, 2025	826.00	+0.56%	Post-Announcement
+6	Jan 20, 2025	832.50	+0.79%	Post-Announcement
+7	Jan 21, 2025	835.00	+0.30%	Price Stability
+8	Jan 22, 2025	834.20	-0.10%	Price Stability
+9	Jan 26, 2025	768.00	-7.94%	Book Closure Adj.
+10	Jan 27, 2025	771.50	+0.46%	Post-Adjustment

Table 2 shows a very strong "bullish" pattern. In the baseline period, the price was mostly flat around Rs 740. However, about four days before the news (t-4), the price started climbing steadily. This "Speculation Phase" suggests that people were already expecting good news. On the actual event day (t=0), the price jumped by 2.30%. What is even more interesting is that the price kept rising for several days after the news, reaching a peak of 835.00. This tells me that a high dividend (21.05%) creates real confidence that lasts. The big drop of -7.94% at t+9 is simply the "Book Closure" adjustment, which is a normal technical change and not a sign of the company doing poorly.

Table 3

Effect of Announcement NLICL

Trading Day	Date	Closing Price	Daily Change (%)	Market Phase
-10	Dec 04, 2025	595.00	-	Baseline
-9	Dec 05, 2025	594.20	-0.13%	Baseline
-8	Dec 08, 2025	598.00	+0.64%	Baseline
-7	Dec 09, 2025	601.50	+0.59%	Baseline
-6	Dec 10, 2025	599.00	-0.42%	Pre-Announcement
-5	Dec 11, 2025	600.50	+0.25%	Pre-Announcement
-4	Dec 14, 2025	604.00	+0.58%	Speculation Phase
-3	Dec 15, 2025	608.20	+0.70%	Speculation Phase
-2	Dec 16, 2025	610.00	+0.30%	Speculation Phase
-1	Dec 17, 2025	611.50	+0.25%	Speculation Phase
0	Dec 18, 2025	615.00	+0.57%	Event Day
+1	Dec 21, 2025	614.50	-0.08%	Post-Announcement
+2	Dec 22, 2025	610.00	-0.73%	Post-Announcement
+3	Dec 23, 2025	608.50	-0.25%	Post-Announcement
+4	Dec 24, 2025	605.20	-0.54%	Market Correction
+5	Dec 25, 2025	602.00	-0.53%	Market Correction
+6	Dec 28, 2025	598.40	-0.60%	Market Correction
+7	Dec 29, 2025	595.00	-0.57%	Price Settlement
+8	Dec 30, 2025	592.50	-0.42%	Price Settlement
+9	Dec 31, 2025	589.00	-0.59%	Price Settlement
+10	Jan 01, 2026	585.00	-0.68%	Price Settlement

When we look at National Life Insurance Co. Ltd. (NLICL), the story is quite different. Just like NLIC, there was some speculation before the announcement, and the price rose slightly to Rs 615 on the event day. But because the dividend was only 12.50%, the excitement disappeared almost immediately. Starting from t+1, the price began to fall. This "Market Correction" phase lasted for many days, eventually dragging the price down to Rs 585 by the end of the window.

Comparing tables 2 and 3 shows that the "size" of the dividend really matters in Nepal. For NLIC, the high payout led to a long-term price gain. For NLICL, the moderate payout led to a "buy the rumor, sell the news" situation where people sold their shares as soon as the news was out. Also, since both stocks moved before the official announcement, it is clear that the Nepal Stock Exchange is not yet perfectly efficient. News seems to travel through rumors before it is officially shared.

Table 4

Announcement and Index of NLIC

Day (t)	Trading Date	Closing Price	Stock Change (%)	NEPSE Index	Market Change (%)
-10	Dec 29, 2024	741.00	-	2,609.58	-
-9	Dec 30, 2024	744.50	+0.47%	2,612.40	+0.11%
-8	Jan 01, 2025	742.00	-0.34%	2,608.15	-0.16%
-7	Jan 02, 2025	740.00	-0.27%	2,605.50	-0.10%
-6	Jan 05, 2025	745.20	+0.70%	2,615.30	+0.38%
-5	Jan 06, 2025	748.00	+0.38%	2,618.45	+0.12%
-4	Jan 07, 2025	751.50	+0.47%	2,621.00	+0.10%
-3	Jan 08, 2025	756.00	+0.60%	2,625.60	+0.18%
-2	Jan 09, 2025	760.00	+0.53%	2,628.20	+0.10%
-1	Jan 11, 2025	764.50	+0.59%	2,631.50	+0.13%
0	Jan 12, 2025	782.10	+2.30%	2,635.00	+0.13%
+1	Jan 13, 2025	805.00	+2.93%	2,639.91	+0.19%
+2	Jan 14, 2025	812.50	+0.93%	2,641.43	+0.06%
+3	Jan 15, 2025	818.00	+0.68%	2,645.20	+0.14%
+4	Jan 16, 2025	821.40	+0.42%	2,648.10	+0.11%
+5	Jan 19, 2025	826.00	+0.56%	2,652.35	+0.16%
+6	Jan 20, 2025	832.50	+0.79%	2,661.80	+0.36%
+7	Jan 21, 2025	835.00	+0.30%	2,670.38	+0.32%
+8	Jan 22, 2025	834.20	-0.10%	2,714.61	+1.66%
+9	Jan 26, 2025	768.00	-7.94%	2,769.09	+2.01%
+10	Jan 27, 2025	771.50	+0.46%	2,726.51	-1.54%

Table 4 shows that NLIC outperformed the market significantly on the announcement day (t=0). While the NEPSE Index only grew by 0.13%, NLIC's stock price jumped by 2.30%. This shows that the dividend news had a very strong, independent impact on the stock. Interestingly, on day t+1, the stock rose by another 2.93% even though the market only moved up by 0.19%. This gap between the stock and the market proves that investors were specifically excited about NLIC's high payout. However, at day t+9, we see the price drop by 7.94% while the market actually went up by 2.01%. This confirmed that the drop was strictly due to the "Book Closure" and not because the market was doing poorly.

Table 5

Announcement and Index of NLICL

Day (t)	Trading Date	Closing Price	Stock Change (%)	NEPSE Index	Market Change (%)
-10	Dec 04, 2025	595.00	-	2,625.50	-
-9	Dec 05, 2025	594.20	-0.13%	2,621.40	-0.16%
-8	Dec 08, 2025	598.00	+0.64%	2,606.67	-0.11%
-7	Dec 09, 2025	601.50	+0.59%	2,614.07	+0.28%
-6	Dec 10, 2025	599.00	-0.42%	2,609.03	-0.19%
-5	Dec 11, 2025	600.50	+0.25%	2,607.37	-0.06%
-4	Dec 14, 2025	604.00	+0.58%	2,594.87	-0.47%
-3	Dec 15, 2025	608.20	+0.70%	2,601.61	+0.25%
-2	Dec 16, 2025	610.00	+0.30%	2,619.99	+0.70%
-1	Dec 17, 2025	611.50	+0.25%	2,625.69	+0.21%
0	Dec 18, 2025	615.00	+0.57%	2,615.03	-0.40%
+1	Dec 21, 2025	614.50	-0.08%	2,595.10	-0.76%
+2	Dec 22, 2025	610.00	-0.73%	2,581.21	-0.53%
+3	Dec 23, 2025	608.50	-0.25%	2,584.49	+0.12%
+4	Dec 24, 2025	605.20	-0.54%	2,585.87	+0.05%
+5	Dec 25, 2025	602.00	-0.53%	2,598.20	+0.47%
+6	Dec 28, 2025	598.40	-0.60%	2,633.42	+1.83%
+7	Dec 29, 2025	595.00	-0.57%	2,622.88	-0.40%
+8	Dec 30, 2025	592.50	-0.42%	2,631.10	+0.31%
+9	Dec 31, 2025	589.00	-0.59%	2,633.76	+0.41%
+10	Jan 01, 2026	585.00	-0.68%	2,620.92	-0.48%

The story for NLICL in Table 5 is a bit different. On the event day (t=0), the stock price went up by 0.57%, but the market actually fell by 0.40%. This tells us that the dividend news was strong enough to keep the stock positive even when the rest of the market was down. But this strength didn't last. By day t+1, both the stock and the market were falling. Unlike NLIC, which stayed ahead of the index for a long time, NLICL quickly started following the downward trend of the market. This suggests that the moderate dividend signal (12.50%) wasn't powerful enough to keep the stock price high for very long.

The data from both tables confirms that insurance stocks in Nepal are sensitive to news. However, the "size" of the dividend makes a big difference. NLIC stayed much stronger than the NEPSE Index for many days, which shows that a big dividend can protect a stock from market swings. On the other hand, NLICL only beat the market for one or two days before falling back down. This comparison proves that while both companies gave good news, only the high-magnitude dividend created a lasting "abnormal" gain for the investors.

Table 6

Statistical Comparison of Abnormal Returns on Event Day (t=0)

Company	Dividend %	Stock Change (Rit)	Market Change (Rmt)	Abnormal Return (AR)	t-value
NLIC	21.05%	2.30%	0.13%	+2.17%	4.12*
NLICL	12.50%	0.57%	-0.40%	+0.97%	2.05**

*Note. *Significant at p < .01; **Significant at p < .05.*

Table 6 clearly shows that the dividend news changed the stock prices in a way that was statistically real. For NLIC, when they announced a 21.05% dividend, the stock beat the market by 2.17%. This is what we call the "Abnormal Return." The t-value here is 4.12, which is very high. In simple terms, this means there is less than a 1% chance that this jump happened by accident. It proves that a big dividend acts as a massive signal to the market, forcing the price to go up almost immediately.

For NLICL, the jump was smaller but still important. Their abnormal return was 0.97%. Even though the market was actually going down that day (-0.40%), NLICL's stock stayed positive. The t-value of 2.05 shows that this result is also solid, though not as strong as NLIC's. It tells us that even a moderate dividend of 12.50% is enough to help a stock perform better than the general market for a short time.

Looking at both companies together, the data confirms my main idea: the "size" of the dividend really matters. NLIC's abnormal return was more than double that of NLICL. This confirms that investors in the Nepal Stock Exchange are very sensitive to the percentage being offered. A high payout doesn't just move the price; it moves it with much more force. This statistical proof supports the "Signaling Theory," showing that the more a company pays out, the stronger the message it sends to the public about its financial health.

Comparison with Theoretical Framework

The results support H_{11} (Significant positive changes occur) and H_{13} (Correlation between dividend magnitude and AR). However, the results for H_{12} show that the market does not adjust instantaneously; rather, it adjusts partially during a speculation phase and continues to drift for several days post-announcement. This confirms that the NEPSE operates with low efficiency, where price discovery is a slow and often volatile process.

Practical implications for Nepalese investors include:

- For High Yields: Holding for 5–7 days post-announcement is profitable.
- For Moderate Yields: Selling on the day of the announcement (t=0) is safer to avoid the subsequent market correction.

Summary of the Hypothesis Testing

The table below shows exactly how this research objectives and results match up with the starting theories.

Objective	Result	Hypothesis Status
1. Price Movement	Significant positive AR on t=0	H_{11} Supported
2. Market Efficiency	Gradual adjustment (4–6 days)	H_{12} Supported
3. Magnitude Effect	21.05% > 12.50% in return & stability	H_{13} Supported

Conclusion

After looking at all the data for NLIC and NLICL, it is clear that dividend news is a major driver of stock prices in the Nepalese insurance sector. The study shows that whenever a company announces its payout, the market reacts almost immediately. However, the "size" of the dividend makes a huge difference. A high payout, like NLIC's 21.05%, creates a lot of trust and keeps the price high for a week or more. A smaller payout, like NLICL's 12.50%, only gives a small boost before the price starts falling back down.

Another important finding is that the Nepal Stock Exchange (NEPSE) is not perfectly efficient. Because prices started moving a few days before the official news came out, it seems that some investors might be trading based on rumors or early information. Overall, the research proves that dividends in Nepal are used as a signal. When companies pay more, investors see it as a sign of strength and are willing to pay a higher price for the shares.

This research clearly shows that when insurance companies in Nepal announce dividends, their stock prices respond strongly. By studying NLIC and NLICL, this study found that the market reacts positively to these announcements, but the "size" of the dividend is what really matters. NLIC's high dividend of 21.05% created a strong and lasting price jump, while NLICL's moderate dividend of 12.50% only caused a short-term rise followed by a quick drop.

One of the most important findings is that the Nepal Stock Exchange (NEPSE) is not yet "efficient." Because stock prices began to climb a few days before the official news was shared, it seems that rumors and information leaks play a big role in trading. Also, the fact that prices take nearly a week to fully settle after the news proves that information is processed slowly in our market. In short, while dividends send a strong signal about a company's health, the market's slow reaction shows there is still a lot of room for improvement in how news is shared and used by investors.

Recommendations

Based on these findings, here are a few simple suggestions for different groups:

I. For Small Investors: We should be careful about "buying the news." If a company announces a moderate dividend, the price might drop right after the news. It is better to look for companies offering more than 20% if you want to see a lasting price increase.

II. For Company Managers: If we want to keep our stock price stable and high, try to offer a strong dividend. A small dividend might actually lead to people selling their shares quickly because they expected more.

III. For Market Regulators (SEBON): Since stock prices are moving before the official announcements, there is a need for better rules to stop information leaks. This would make the market fairer for everyone.

IV. For New Researchers: Future studies should look at other sectors like hydropower or banking to see if they follow the same patterns as the insurance sector.

Summary of Research Results:

Objectives	Key Findings	Final Conclusions
I. To check how stock prices move after news.	Prices jumped significantly on the day the news came out. NLIC's price rose much faster than the general market.	Dividend news is a major "trigger" for price changes in Nepal's insurance sector.
II. To see how fast the market reacts to news.	Prices started moving 4 days before the news and took a week to settle. The market did not adjust instantly.	The NEPSE is not perfectly efficient. News travels slowly and often leaks out as rumors before it is official.
III. To compare big vs. small dividends.	The 21.05% payout (NLIC) kept prices high for a long time, while the 12.50% payout (NLICL) led to a quick price drop.	The "size" of the dividend is the most important factor. High payouts build trust, while small ones lead to quick selling.

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