Corporate Governance and Capital Structure Dynamics: A Case of Nepalese Insurance Companies

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Abstract

The study examines the impact of corporate governance on capital structure dynamics in Nepalese insurance companies. Total debt to equity and total debt to assets are the dependent variables. The selected independent variables are board size, independent director, audit committee, institutional ownership, female director and board meetings. The study is based on secondary data of 10 commercial banks with 100 observations for the study period from 2013/14-2022/23. The data were collected from Bank Supervision Report published by Nepal Rastra Bank (NRB), Ministry of Finance (MoF) and annual reports of the selected commercial banks. The correlation coefficients and regression models are estimated to test the significance and importance of corporate governance on capital structure dynamics in Nepalese insurance company.

The study showed that board size has a negative relationship with total debt to equity and total debt to assets. It means that increase in board size leads to decrease in total debt to equity and total debt to assets. Similarly, female director has a negative relationship with total debt to equity and total debt to assets. It means that increase in the number of female directors leads to decrease in total debt to equity and total debt to assets. Further, independent directors have a positive relationship with total debt to equity and total debt to assets. It means that increase in number of independent directors leads to increase in total debt to equity and total debt to assets. Moreover, board meeting has a positive relationship with total debt to equity and total debt to assets. It means that increase in the number of board meeting leads to increase in total debt to equity and total debt to assets. Similarly, the results show that audit committee has a positive relationship with total debt to equity and total debt to assets indicating that increase in audit committee leads to increase in total debt to equity and total debt to assets. In addition, institutional ownership has a positive relationship with in total debt to equity and total debt to assets. It means that increase in institutional ownership leads to increase in in total debt to equity and total debt to assets.

Keywords: board size, independent director, audit committee, institutional ownership, female director, board meetings, total debt to equity, total debt to assets

1. Introduction

Good corporate governance is increasingly attracting the attention of scholars, economists, and politicians around the world as a fundamental principle that supports bank performance. Corporate governance remains a critical topic in corporate finance research, because it has an enormous influence on a firm's health and capital structure and determines the owners' (principals') role in guiding managerial decisions (Grove *et al.,* 2011). Corporate governance is defined as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholders value (Saad, 2010). Failure

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to implement practices of good governance can lead to the downfall of MFIs or undermine their effectiveness due to poor decisions, reduced access to funds in the form of capital or donations, and compromised goodwill and trust (Beisland *et al*., 2015). Corporate governance (CG) is the process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects the institution's assets over time (Bassem, 2009). The difference in capital structure dynamics is also reflected in the slower speed of adjustment to capital structure (McMillan andCamara, 2012).

Corporate governance is about inculcating credibility, guaranteeing transparency and accountability as well maintaining an effective network of information disclosure that would nurture good corporate performance (Yusoff and Alhaji, 2012). According to Imam and Malik (2007), the need for corporate governance arises from the potential conflicts of interest among participants (stakeholders) in the corporate structure. This conflict of interest often arises because different participants have different goals and preference. Poor corporate governance of the banks can drive the market to lose confidence in the ability of a bank then it leads to economic crisis in a country and invite systemic risk (Garcia-Marco and Robles-Fernandez, 2008). Good corporate governance is considered a building block of success for microfinance institutions (MFIs) as it is presumed to help them in achieving their social and financial goals (Iqbal *et al*., 2019).

Gul *et al*. (2011) revealed that boards with more women have greater levels of public disclosure and better oversight of management reporting that enhances earnings quality and firm performance. Al-Ahdal *et al*. (2020) analysed the impact of corporate governance mechanisms on the financial performance of Indian and GCC listed firms. The study revealed that board accountability and audit committee have an insignificant impact on firms' performance. Similarly, Mutlu *et al*. (2018) examined the impact of corporate governance' principles on firm performance in China. The study reported that firms' boardroom independence is positively associated with firm performance. Tu *et al.* (2014) revealed that audit committee does not explains the changes in capital, credit and liquid risks. Ahmed and Hamdan (2015) revealed that corporate governance is significantly correlated with firm performance. Yung (2009) analyzed the relationship between corporate governance and bank performance in Hong Kong. The study found a significant relationship between board size and bank performance and negative and significant relationship between level of related party loan and bank performance. Fratini and Tettamanzi (2015) analyzed relationship between corporate governance and performance in Italian firms using regression model. The study observed that board size has a positive and statistically significant relationship with firm performance which implies larger board size firms have higher performance.

Liao *et al.* (2015) examined corporate governance and capital structure dynamics: an empirical study. The result revealed that both a higher level of financial leverage and a faster speed of adjustment of leverage toward the shareholders' desired level are associated with better corporate governance quality as defined by a more independent board featuring CEO–chairman separation and greater presence of outside directors, coupled with larger institutional shareholding. The result also showed that managerial incentive compensation on average discourages use of debt or adjustments toward the shareholders' desired level, consistent with its entrenchment effect. First, the results concluded that comparing capital structure adjustments between firms moving toward the shareholders' desired leverage level and those moving toward the manager's desired level highlight the potential benefit of

using an estimated target that takes into account the corporate governance factors. Second, when it comes to capital structure decisions, the entrenchment effect of equity-based compensation outweighs its incentive effect. Thus, it does not necessarily hold that a greater value of managerial delta leads to less agency conflicts. Zeitun and Goaied (2023) examined the nonlinear connection between corporate governance (CG) and corporate leverage. The empirical findings indicated that recent reforms in Japan's CG system seem to have been inefficient, with no positive effect on corporate leverage.

Junior (2022) examined the relationship between corporate governance mechanisms and the capital structure of Latin American firms. The result indicated that chief executive officer duality, legal protection system and corporate social responsibility voluntary disclosure impact the firm's total debt ratio, corresponding to a positive effect for the first two variables and a negative for the last. Ahmed *et al.* (2023) examined corporate governance and capital structure. The result revealed that board size and audit committee size are positively related with the capital structure and the result is significant. With respect to corporate governance, Board meeting and Board remuneration with debt to assets ratio have a negative and significant relationship. CEO compensation has positive but insignificant connection with Debt to asset ratio. Shibru *et al.* (2015) observed that profitability, company size, tangibility and liquidity are important determinants of capital structure of insurance companies in Ethiopia and indicated that growth and risk of banks are unrelated to insurance capital structure. The predominant understanding of corporate finance literature is that managers, motivated by their interests, will not make decisions regarding capital structure composition aiming exclusively at maximization of shareholders wealth (Morellec *et al.,* 2012). Zain *et al.* (2023) examined whether there is an influence between return on assets, debt to equity ratio, return on equity, and earning per share on the stock prices. The results showed that return on assets, return on equity, and earnings per share have a positive effect on the stock prices. Meanwhile, the debt-to-equity ratio does not showed a significant effect on the stock prices.

Lukiawati *et al.* (2023) assessed the effect of determinant factors of stock price and also examined whether there were differences in Stock Prices before and during the Covid-19 Pandemic era. The results of the study showed that the earning per share has a significant positive effect on stock prices while current ratio, inflation, and rupiah exchange rates have no significant effect on share prices. Similarly, there are differences in stock prices before and during the Covid-19 Pandemic. Putri *et al.* (2023) analyzed the determinant factors of the stock price performance, proxied by price earnings ratio, in the basic industry and the causal relationship between them. The results revealed that return on equity, debt-equity ratio, price-to-book value, earnings growth, and dividend payout significantly impact the price-earnings ratio and thus become significant determinants of the price-earnings ratio. Siawan and Lukman (2023) analyzed the effect of dividend policy, leverage, growth in assets, and auditor quality on stock price volatility in the plantation industry listed on the Indonesia Stock Exchange for the period 2016 to 2020. The study showed that dividend and leverage policies affect stock volatility, while asset growth and auditor quality have no effect on stock volatility. Companies with high growth rates will expand by using external funds in the form of debt. An increase in assets followed by an increase in operations will increase investor confidence to invest. Aboav *et al.* (2010) analyzed the governance quality of Italian Stock Exchange listed firms, and, creating a Corporate Governance Index. The study showed a positive and statistically significant correlation between governance and firm value. Poor firm corporate governance can cause the market to lose confidence in an insurance competence, which

can lead to an economic crisis in a country and invite systematic risk (Garcia-Marco *et al.,* 2008). Good corporate governance, on the other hand, strengthens property rights, reduces transaction costs and capital costs, and promotes capital market development (Claessens and Fan, 2002).The study revealed that only bank size and book to market value explanatory variables are found significantly responsible for fluctuation in the change in share price of banks. Megawati (2023) determined the effect of liquidity and profitability on manufacturing companies listed on the IDX for the 2017-2022 period. The study revealed that liquidity partially has a significant effect on stock returns and profitability partially has a significant effect on stock returns.

In the context of Nepal, Bhandari *et al.* (2014) examined the effect of board size, board composition, and ownership structure insurance Firm performance. The result found that corporate governance, board size and board independence have significantly impact on insurance firm performance. Similarly, Poudel and Hovey (2012) showed that bigger board and audit committee size and lower frequency of board meeting and lower proportion of institutional ownership led to better efficiency in the insurance companies. Likewise, Bhattrai (2017) found that the board size has a negative impact on financial performance of insurance firm in Nepal whereas audit committee size and portion of independent directors have positive impact on financial performance of insurance companies in Nepal.

The above discussion shows that empirical evidences vary greatly across the studies on the impact of corporate governance on capital structure dynamics in insurance company. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The main purpose of the study is to analyze the impact of corporate governance on capital structure dynamics in Nepalese insurance company. Specifically, it examines the relationship of board size, independent director, audit committee, institutional ownership, female director and board meeting with total debt to equity and total debt to assets of Nepalese insurance company.

The remainder of this study is organized as follows. Section two describes the sample, data and methodology. Section three presents the empirical results and the final section draws the conclusion.

2. Methodological aspects

The study is based on the secondary data which were gathered from 10 insurance companies for the period of 2013/14 to 2022/23, leading to a total of 100 respondents. The study employed stratified sampling method. The main sources of data include insurance and financial statistics published by the insurance board of Nepal and annual report of respective insurance companies. Table 1 shows the list of insurance firms for the study along with the study period and number of observations.

Table 1

List of insurance companies selected for the study along with the study period and number of observations

S. N.	Name of Insurance Companies	Study time Period	Observations
1	Nepal Life Insurance Company Limited	2013/14-2022/23	10
2	Siddhartha Insurance limited	2013/14-2022/23	10
3	National life insurance company limited	2013/14-2022/23	10
4	Himalayan general insurance company limited	2013/14-2022/23	10
5	United insurance company limited	2013/14-2022/23	10
6	Everest insurance company limited	2013/14-2022/23	10
7	Prudential insurance company limited	2013/14-2022/23	10
8	Lumbini insurance company limited	2013/14-2022/23	10
9	Oriented insurance company limited	2013/14-2022/23	10
10	Sanima insurance company limited	2013/14-2022/23	10
Total number of observations			**100**

Thus, the study is based on 100 observations.

The model

The model used in this study assumes that capital structure dynamics depends upon corporate governance. The dependent variables selected for the study are earning debt to equity and debt to asset. Similarly, the selected independent variables are board size, independent director, female director, audit committee, board meetings, and institutional ownership. Therefore, the model takes the following form:

$$DTE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 ID_{it} + \beta_3 FD_{it} + \beta_4 AC_{it} + \beta_5 BM_{it} + \beta_6 IO_{it} + e_{it}$$

$$DTA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 ID_{it} + \beta_3 FD_{it} + \beta_4 AC_{it} + \beta_5 BM_{it} + \beta_6 IO_{it} + e_{it}$$

Where,

DTE_{it} = Debt to equity as measured by the total debt divided by the total equity, in ratio.

DTA_{it} = Debt to assets as measured by the total debt divided by the total assets, in percentage.

BS= Board Size as measured by the number of individuals serving on the board of directors, in numbers.

ID= Independent director are measured based on several criteria designed to ensure they can provide oversight and make decisions, in numbers.

AC= Audit committee measured through several key metrics and practices focusing on how well it performs its responsibilities related to financial oversight, in numbers.

BM= Board meeting are measured through several criteria that focus on their efficiency productivity and overall impact of governance.

FD= Female director measured through evaluating their representation and impact within the board room, in numbers.

IO= Institutional ownership measures the proportion of a company's shares that are held by

institutional investors such as mutual funds and company large investment, in percentage.

The following section describes the independent variables used in this study along with the hypothesis formulation:

Board size

Sheikha and Wang (2011) discovered a positive correlation between board size and corporate debt ratio in Pakistan. Similarly, Ganiyu and Abiodun (2012) found a positive association, suggesting that larger boards tend to facilitate effective monitoring through diverse directorial bodies, thereby encouraging higher debt levels to enhance firm value. However, they also noted that larger boards might lead to conflicts hampering consensus in decision-making, potentially weakening corporate governance and increasing leverage. Adams and Mehran (2003) found a significant positive relationship between board size and performance. Similarly, Nuryanah and Islam (2011) showed that larger the board size better would be the firm performance. Likewise, Alqatan *et al*. (2019) examined the impact of board size, independence and remuneration on firm performance. The study concluded a positive correlation between board size and return on assets. Based on it, this study develops the following hypothesis:

H_1: There is a positive relationship between board size and debt to equity.

H_2: There is a positive relationship between board size and debt to asset.

Independent director

Kuo *et al.* (2012) found that when the number of external directors increases, the firm tends to have a lower level of debt which means there is a negative correlation between the presence of external directors on the board and debt. Prabowo and Simpson (2011) analyzed the independent directors and firm performance in family controlled firms. The study found that the share of independent directors on the board has an insignificant relationship with firm performance. Adams and Ferreria (2009) showed that there is a positive relationship between independent directors and corporate governance. Similarly, Man and Wong (2013) revealed that the board still needs to be effective in enforcement and the number of independent director is a good proxy for measuring the effectiveness of board performance and internal corporate governance. Based on it, this study develops the following hypothesis:

H_3: There is a positive relationship between independent director and debt to equity.

H_4: There is a positive relationship between independent director and debt to asset.

Audit committee

Audit committee with accounting or financial competence may perform a better supervision for the management, therefore an immediate correction would be made when a manipulation is found (Ariyani dan Harto, 2014). Al-Jaifi *et al.* (2017) found that the audit committee has a positive impact on financial and stock performance. Ud Din (2020) concluded that the accounting expertise of audit committee female chairs enhances financial reporting quality and firm performance. Based on it, this study develops the following hypothesis:

H_5: There is a positive relationship between audit committee and debt to equity.

H_6: There is a positive relationship between audit committee and debt to asset.

Board meeting

Board meetings are very fundamental for directors as they utilize the attendance as a way which enables them to control properly (Yameen *et al.,* 2019). Similarly, Mohamed *et al.* (2016) found that board meetings are positively correlated with return on equity. In addition, Arora (2012) found that board meetings negatively affect firms' performance. On the contrary, Arora and Sharma (2016) found that board of directors positively impacts firms' performance. Based on it, this study develops the following hypothesis:

H_7: There is a positive relationship between board meetings and debt to equity.

H_8: There is a positive relationship between board meetings and debt to asset.

Female director

Women CEOs and directors exert a positive influence to board effectiveness (Kyereboah-Coleman and Biekpe, 2006). Terjesen *et al.* (2016) found that firms with more female directors have higher firm performance by market (Tobin's Q) and accounting (return on assets) measures. Similarly, Belaounia *et al.* (2020) concluded that firms with higher female board representation exhibit higher overall performance, less earnings management and less excessive risk taking in which all three relations are stronger in countries with greater gender equality. Based on it, this study develops the following hypothesis:

H_9: There is a positive relationship between female director and debt to equity.

H_{10}: There is a positive relationship between female director and debt to asset.

Institutional ownership

Filsaraei and Mogaddham (2016) stated that institutional ownership reduces the financial distress. Davis (2003) showed that institutional investors enhance financial system stability although they may sporadically exacerbate market volatility or liquidity problems. T Mizuno (2010) found that there is not a statistically significant difference between institutional investors' shareholdings and firm performance. Institutional ownership has positive significant effect on firm performance but the effect of concentrated institutional ownership is negative (Fazlzadeh *et al.,* 2011). Based on it, this study develops the following hypothesis:

H_{11}: There is a positive relationship between institutional ownership and debt to equity.

H_{12}: There is a positive relationship between institutional ownership and debt to asset.

3. Results and Discussion

Descriptive statistics

Table 2 presents the descriptive statistics of the selected dependent and independent variables during the period 2013/14 to 2022/23.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 10 Nepalese insurance companies for the study period of 2013/14 to 2022/23. Dependent variables are DTA (Debt to assets as measured by the total debt divided by the total assets, in ratio) and DTE (Debt to equity as measured by the total debt divided by the total equity, in ratio). The independent variables are BS (Board size as measured by the number of individuals serving on the board of directors, in numbers), ID (Independent director are measured based on several criteria designed to ensure they can provide oversight and make decisions, in numbers), AC (Audit committee measured through several key metrics and practices focusing on how well it performs its responsibilities related to financial oversight, in numbers), BM (Board meeting are measured through several criteria that focus on their efficiency productivity and overall impact of governance), FD (Female director measured through evaluating their representation and impact within the board room, in numbers) and IO(institutional ownership measures the proportion of a company's shares that are held by institutional investors such as mutual funds and company large investment, in percentage).

Variables	Minimum	Maximum	Mean	S.D.
BS	5.00	11.00	7.32	1.28
ID	0.00	4.00	0.71	0.64
BM	0.00	60.00	20.57	12.32
AC	1.00	6.00	3.14	1.03
FD	0.00	2.00	0.57	0.56
IO	0.00	51.00	11.81	15.55
DTE	0.00	153.20	20.61	25.66
DTA	0.00	18.04	2.45	3.40

Source: SPSS output

Correlation analysis

Having indicated the descriptive statistics, Pearson's correlation coefficients are computed and the results are presented in Table 3.

Table 3

Pearson's correlation coefficients matrix

This table shows the correlation coefficients of dependent and independent variables of 10 Nepalese insurance companies for the study period of 2013/14 to 2022/23. Dependent variables are DTA (Debt to assets as measured by the total debt divided by the total assets, in ratio) and DTE (Debt to equity as measured by the total debt divided by the total equity, in ratio). The independent variables are BS (Board size as measured by the number of individuals serving on the board of directors, in numbers), ID (Independent director are measured based on several criteria designed to ensure they can provide oversight and make decisions, in numbers), AC (Audit committee measured through several key metrics and practices focusing on how well it performs its responsibilities related to financial oversight, in numbers), BM (Board meeting are measured through several criteria that focus on their efficiency productivity and overall impact of governance), FD (Female director measured through evaluating their representation and impact within the board room, in numbers) and IO(institutional ownership measures the proportion of a company's shares that are held by institutional investors such as mutual funds and

company large investment, in percentage).

Variables	DTA	DTE	IO	FD	AC	BM	ID	BS
DTA	1							
DTE	0.681**	1						
IO	0.078	0.221*	1					
FD	-0.165	-0.111	-0.292**	1				
AC	0.080	0.08	0.203*	0.107	1			
BM	0.395**	0.132	0.092	0.011	0.098	1		
ID	0.027	0.102	0.088	0.214*	-0.061	0.127	1	
BS	-0.163	-0.153	-0.143	0.039	0.027	-0.339**	-0.256*	1

Note: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

Table 3 reveals that institutional ownership has a positive relationship with debt to assets. It indicates that increase in institutional ownership leads to increase in debt to assets. However, Female director has a negative relationship with debt to assets. It indicates that increase in female director leads to decrease in debt to assets. The results show that audit committee has a positive relationship with debt to assets indicating that increase in audit committee leads to increase in debt to assets. Similarly, board meeting has a positive relationship with debt to assets. It shows that increase in board meeting leads to increase in debt to assets. In addition, independent directors has a positive relationship with debt to assets indicating that increase in independent directors leads to increase in debt to assets. Board size has a negative relationship with debt to assets. It means that increase in board size leads to decrease in debt to assets.

Similarly, institutional ownership has a positive relationship with debt to equity. It indicates that increase in institutional ownership leads to increase in debt to equity. However, Female director has a negative relationship with debt to equity. It indicates that increase in female director leads to decrease in debt to equity. The results show that audit committee has a positive relationship with debt to equity indicating that increase in audit committee leads to increase in debt to equity. Similarly, board meeting has a positive relationship with debt to equity. It shows that increase in board meeting leads to increase in debt to equity. In addition, independent directors has a positive relationship with debt to equity indicating that increase in independent directors leads to increase in debt to equity. Board size has a negative relationship with debt to equity. It means that increase in board size leads to decrease in debt to equity.

Regression analysis

Having indicated the Pearson's correlation coefficients, the regression analysis has been computed and results are presented in Table 4. More specifically, it shows the regression results of board size, board independence, and audit committee, number of meetings, female directors and institutional ownership on debt-to-equity ratio of Nepalese insurance companies.

Table 4

Estimated regression results of board size, board independence, and audit committee, number of meetings, female directors and institutional ownership on debt-to-equity ratio

The results are based on panel data of 10 Nepalese insurance companies with 100 observations for the

period of 2013/14 to 2022/23 by using the linear regression model and the model is $DTE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 ID_{it} + \beta_3 FD_{it} + \beta_4 AC_{it} + \beta_5 BM_{it} + \beta_6 IO_{it} + e_{it}$ where, the dependent variable is DTE (Debt to equity as measured by the total debt divided by the total equity, in ratio). The independent variables are BS (Board size as measured by the number of individuals serving on the board of directors, in numbers), ID (Independent director are measured based on several criteria designed to ensure they can provide oversight and make decisions, in numbers), AC (Audit committee measured through several key metrics and practices focusing on how well it performs its responsibilities related to financial oversight, in numbers), BM (Board meeting are measured through several criteria that focus on their efficiency productivity and overall impact of governance), FD (Female director measured through evaluating their representation and impact within the board room, in numbers) and IO(institutional ownership measures the proportion of a company's shares that are held by institutional investors such as mutual funds and company large investment, in percentage).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	ID	BM	AC	FD	IO			
1	43.04 (2.891)	-3.064 (1.529)						0.130	25.490	2.337
2	17.71 (4.611)		4.09 (1.016)					0.00	25.654	1.032
3	14.972 (2.997)			0.274 (1.315)				0.007	25.560	1.729
4	14.304 (1.719)				2.01 (0.797)			0.004	25.706	0.636
5	23.543 (6.393)					-5.137 (1.107)		0.002	25.629	1.226
6	16.303 (5.152)						0.365 (2.244)	0.139	25.151	5.037
7	38.587 (2.349)	-2.717 (1.307)	2.703 (0.651)					0.007	25.562	1.374
8	30.742 (1.615)	-2.142 (0.975)	2.55 (0.613)	0.182 (0.819)				0.004	25.605	1.136
9	25.374 (1.253)	-2.228 (1.010)	2.751 (0.659)	0.161 (0.719)	1.999 (0.788)			0.000	25.657	1.004
10	24.709 (1.225)	-1.946 (0.883)	4.14 (0.967)	0.162 (0.725)	2.417 (0.95)	-6.5 (1.356)		0.009	25.544	1.178
11	21.996 (1.092)	-1.658 (0.753	3.175 (0.736)	0.155 (0.697)	1.422 (0.542)	-3.945 (0.776)	0.262 (1.447)	0.020	25.396	1.342

Notes:

i. Figures in parenthesis are t-values.

ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

iii. Debt to equity is the dependent variable.

Table 4 shows that the beta coefficients for board size are negative with debt to equity. It indicates that board size has a negative impact on debt to equity. This finding is consistent with the findings of Jensen (1993). Furthermore, the beta coefficients for independent directors are positive with debt to equity. It indicates that independent directors has a positive impact on debt to equity. This finding is consistent with the findings of Millstein and MacAvoy (1998). Likewise, the beta coefficients for board meeting are negative with debt to equity. It indicates board meeting has a negative impact on debt to equity. This finding is similar to the findings of Todorovic (2013). In addition, the beta coefficients of audit committee are positive with debt to equity. It indicates that audit committee have a positive impact on debt to equity. This finding is consistent with the findings of Al-Matari *et al.* (2014). Moreover, the beta coefficients of female director are negative with debt to equity. It indicates that female director have a negative impact on debt to equity. This finding is consistent with the findings of Brennan and Tarraf and Majeske (2008). Similarly, the beta coefficients for institutional

ownership are positive with debt to equity. It indicates that institutional ownership has a positive impact on debt to equity. This finding is similar to the findings of Ekwe and Duru (2012).

Table 5 shows the regression results of board size, board independence, and audit committee, number of meetings, female directors and institutional ownership on debt-to-assets ratio of Nepalese insurance companies.

Table 5

Estimated regression results of board size, board independence, and audit committee, number of meetings, female directors and institutional ownership on debt-to-assets ratio

The results are based on panel data of 10 Nepalese insurance companies with 100 observations for the period of 2013/14 to 2022/23 by using the linear regression model and the model is $DTA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 ID_{it} + \beta_3 FD_{it} + \beta_4 AC_{it} + \beta_5 BM_{it} + \beta_6 IO_{it} + e_{it}$ where, the dependent variable is DTA (Debt to assets as measured by the total debt divided by the Total assets, in ratio). The independent variables are BS (Board size as measured by the number of individuals serving on the board of directors, in numbers), ID (Independent director are measured based on several criteria designed to ensure they can provide oversight and make decisions, in numbers), AC (Audit committee measured through several key metrics and practices focusing on how well it performs its responsibilities related to financial oversight, in numbers), BM (Board meeting are measured through several criteria that focus on their efficiency productivity and overall impact of governance), FD (Female director measured through evaluating their representation and impact within the board room, in numbers) and IO(institutional ownership measures the proportion of a company's shares that are held by institutional investors such as mutual funds and company large investment, in percentage).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	ID	BM	AC	FD	IO			
1	11.714 (5.930)**	0.316 (2.672)**						0.144	3.609	14.451
2	12.094 (6.412)**		0.222 (2.500)*					0.112	3.612	10.251
3	12.499 (6.168)**			0.124 (0.262)				0.036	3.614	1.069
4	13.07 (7.165)**				0.011 (0.025)			0.027	3.615	0.001
5	13.782 (7.435)**					0.177 (0.413)		0.076	3.613	2.171
6	14.162 (6.293)**						0.417 (3.016)**	0.172	3.443	14.729
7	11.754 (5.781)**	0.376 (2.455)*	0.169 (2.089)*					0.201	3.621	19.228
8	12.02 (5.634)**	0.532 (2.728)**		0.284 (0.387)				0.109	3.62	10.299
9	11.83 (4.556)**	0.318 (2.672)**			0.031 (0.069)			0.101	3.621	11.266
10	12.522 (6.007)**	0.843 (3.309)**		0.201 (0.394)		0.701 (1.197)	0.381 (2.899)**	0.121	3.604	16.943
11	12.283 (5.901)**	0.338 (3.182)**	0.349 (2.477)*	0.17 (0.218)	0.021 (0.048)	0.182 (0.115)	0.361 (2.691)*	0.111	3.624	10.148

Notes:

i. Figures in parenthesis are t-values.

ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

iii. Debt to assets is the dependent variable.

Table 5 shows that the beta coefficients for board size are negative with debt to assets.

It indicates that board size has a negative impact on debt to assets. This finding is consistent with the findings of Jensen (1993). Furthermore, the beta coefficients for independent directors are positive with debt to assets. It indicates that independent directors has a positive impact on debt to assets. This finding is consistent with the findings of Millstein and MacAvoy (1998). Likewise, the beta coefficients for board meeting are negative with debt to assets. It indicates board meeting has a negative impact on debt to assets. This finding is similar to the findings of Todorovic (2013). In addition, the beta coefficients of audit committee are positive with debt to assets. It indicates that audit committee have a positive impact on debt to assets. This finding is consistent with the findings of Al-Matari *et al.* (2014). Moreover, the beta coefficients of female director are negative with debt to assets. It indicates that female director have a negative impact on debt to assets. This finding is consistent with the findings of Brennan and Tarraf and Majeske (2008). Similarly, the beta coefficients for institutional ownership are positive with debt to assets. It indicates that institutional ownership has a positive impact on debt to assets. This finding is similar to the findings of Ekwe and Duru (2012).

4. Summary and conclusion

Good corporate governance is increasingly attracting the attention of scholars, economists, and politicians around the world as a fundamental principle that supports bank performance. Corporate governance remains a critical topic in corporate finance research, because it has an enormous influence on a firm's health and capital structure and determines the owners' (principals') role in guiding managerial decisions. Corporate governance is defined as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholders value.

This study attempts to analyze the impact of corporate governance on capital structure dynamics in Nepalese insurance companies. The study is based on secondary data of 10 insurance company with 120 observations for the study period from 2013/14 to 2022/23.

The result shows that board size and female director have a negative relationship with total debt to equity and total debt to assets. It means that increase board size and female director leads to decrease in total debt to equity and total debt to assets. Further, independent directors, board meeting, audit committee and institutional ownership have a positive relationship with total debt to equity and total debt to assets. It means that increase in number of independent directors, board meeting, audit committee and institutional ownership leads to increase in total debt to equity and total debt to assets. Further the study also concluded that the most dominant factor that determines the debt to equity is institutional ownership in the context of Nepalese insurance companies.

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