

Capital Structure And Financial Performance Of Life Insurance Companies In Nepal: A Review With Reference To NEPSE-Listed Insurers

Usha Sapkota¹, Dr. Sidharth Jain²

¹Research Scholar, IBMC Mangalayatan University, Aligarh (UP), India

²Professor IBMC, Mangalayatan University, Aligarh (UP), India email: siddharth.jain@mangalayatan.edu.in

Abstract

Capital structure is an important financial decision because the proportion of debt and equity employed by a firm can influence profitability, financial risk, solvency and long-term sustainability. The issue assumes greater significance in life insurance companies because these institutions operate with long-term contractual obligations, considerable investment commitments and continuing requirements relating to liquidity, capital adequacy and financial stability. The present paper reviews the relationship between capital structure decisions and the financial performance of life insurance companies with particular reference to Nepalese insurers listed on the Nepal Stock Exchange (NEPSE). The study is review-based and draws exclusively upon selected theoretical and empirical studies contained in the literature reviewed for the underlying Ph.D. research. The review demonstrates that the relationship between leverage and financial performance is not uniform. Classical capital-structure theory initially suggested that financing mix is irrelevant under perfect market assumptions, while later theoretical developments recognised tax benefits from debt as well as the potential costs of financial distress, agency conflict and excessive leverage. Empirical evidence similarly presents mixed findings. Studies on Nepalese insurance companies indicate that appropriately managed leverage may improve Return on Assets, Return on Equity and shareholder returns, whereas excessive debt may increase financial risk and adversely affect profitability. Some recent evidence specifically relating to Nepalese life insurance companies also reports statistically insignificant effects of conventional capital-structure ratios, indicating that profitability cannot be explained by financing mix alone. Liquidity, firm size, solvency, tangibility, investment management and managerial efficiency also influence financial performance. The paper concludes that there is no universally optimal debt-equity structure for life insurers. Capital-structure decisions must instead be evaluated in relation to the distinctive long-term obligations, solvency requirements and operating environment of individual insurance companies. The review further identifies a need for more focused empirical research using updated data for NEPSE-listed life insurers rather than combining life and non-life companies within a common analytical framework.

Keywords: Capital Structure, Financial Performance, Leverage, Life Insurance Companies, Profitability, NEPSE, Nepal.

1. Introduction

Capital structure represents the combination of debt and equity through which an organisation finances its operations and investments. Decisions concerning this financing mix occupy an important place in corporate financial management because borrowing and equity financing have different implications for cost, risk, control and shareholder returns. An appropriate capital structure can provide sufficient financial resources while maintaining financial flexibility, whereas excessive or inappropriate leverage may expose the firm to increased financial obligations and instability. The relationship between capital structure and financial performance has therefore remained an important area of corporate finance research. Financial performance is frequently assessed through accounting-based indicators such as Return on Assets (ROA) and Return on Equity (ROE), while other measures such as Earnings per Share (EPS), profitability ratios, solvency and market-related outcomes may also be relevant. Capital structure, similarly, may be represented through debt-to-equity ratio, total debt ratio, debt-to-total-assets ratio, equity-to-assets ratio or other measures of financial leverage.

The subject becomes particularly important in the insurance industry. Insurance companies differ from many ordinary commercial firms because they receive premiums and assume contractual obligations that may extend over considerable periods. Life insurers, in particular, must maintain the capacity to discharge long-term policyholder obligations while simultaneously managing investments, liquidity and solvency. Accordingly, capital-structure decisions cannot be separated from the broader requirement of financial stability. Life insurance companies may gain from the disciplined and productive use of external finance, but excessive leverage can increase repayment obligations and financial pressure. At the same time, excessive reliance on equity may not necessarily provide the most efficient financing arrangement. The challenge for financial

managers is consequently to maintain a financing structure capable of supporting profitability and expansion without creating excessive financial risk.

This question has particular relevance in Nepal. Life insurance companies constitute an important part of the Nepalese financial and capital-market environment, and several are listed on the Nepal Stock Exchange (NEPSE). The reviewed literature indicates that Nepalese insurers operate in an environment affected by liquidity requirements, solvency considerations, investment performance, market competition and changing regulatory conditions. Various studies have examined profitability and financial performance in the Nepalese insurance sector, but their findings regarding the effect of leverage are not uniform.

Some studies report that debt and leverage contribute positively to profitability. Others suggest that excessive debt weakens performance, while still others find statistically insignificant relationships between conventional capital-structure indicators and profitability. The variation in findings suggests that the relationship between financing structure and performance is more complex than the simple proposition that either more debt or more equity invariably improves financial results. A second issue concerns the composition of existing empirical samples. A considerable part of Nepalese insurance research combines life and non-life insurance companies. These two categories, however, differ in their liability structure, investment horizon, risk exposure and operating characteristics. Consequently, findings obtained from combined insurance samples may not necessarily provide an exact representation of the financing-performance relationship within the life insurance business.

The present paper therefore reviews the theoretical and empirical literature on capital structure and financial performance with particular attention to Nepalese life insurance companies and NEPSE-listed insurers. Rather than attempting to review every financial determinant of insurance-company performance, the paper concentrates primarily on the relationship between debt-equity decisions and profitability while considering liquidity, size, solvency, investment and asset structure where these variables help explain differences in empirical results.

2. Objectives of the Study

The present review has been undertaken with the following objectives:

1. To examine the theoretical and empirical relationship between capital structure decisions and the financial performance of insurance companies.
2. To review the available Nepalese evidence concerning the impact of leverage and related financial factors on the performance of life insurance companies, with particular reference to insurers listed on NEPSE.
3. To identify the major areas of convergence, divergence and research gaps in the existing literature and suggest directions for future empirical investigation.

3. Review Methodology

The present paper is descriptive and review-based in nature. It is based exclusively upon selected literature contained in the Review of Literature prepared for the underlying Ph.D. research on the impact of capital structure decisions on the financial performance of selected life insurance companies of NEPSE. No external study has been introduced into the paper. The available literature has been selectively utilised according to its direct relevance to capital structure, leverage, profitability and the financial performance of insurance companies. The review follows a thematic approach. First, the theoretical foundations of capital structure are examined. Second, evidence concerning capital structure and insurance-company performance is considered. Third, Nepalese empirical findings are synthesised with particular attention to life insurance companies. Finally, the inconsistencies and research gaps emerging from these studies are discussed. This approach is considered appropriate because the underlying literature contains both general capital-structure studies and insurance-specific empirical investigations. A thematic synthesis makes it possible to distinguish between theoretical propositions, evidence derived from combined insurance samples and findings obtained specifically from Nepalese life insurers.

4. Theoretical Foundations of Capital Structure

The modern debate surrounding capital structure was significantly shaped by Modigliani and Miller (1958). Their original proposition argued that under ideal market conditions the value of a firm remains independent of the way in which the firm divides its financing between debt and equity. In an environment characterised by

perfect capital markets, absence of taxes and transaction costs and complete information, financing decisions would not independently generate additional firm value. The importance of the Modigliani-Miller proposition lies partly in its role as a theoretical benchmark. Rather than implying that financing decisions are unimportant in actual markets, the proposition demonstrated that capital structure becomes relevant because real-world conditions depart from the assumptions of perfect markets.

Modigliani and Miller (1963) subsequently incorporated corporate taxation into their analysis. Once interest on debt is recognised as a tax-deductible expense, borrowing can generate a tax advantage. This creates the possibility that leverage may enhance firm value because debt financing provides a tax shield.

The introduction of tax benefits, however, did not establish that unlimited borrowing represents an optimal strategy. Greater leverage also introduces financial commitments and potential costs. Wipperfurth (1966) emphasised the practical difficulties involved in determining an appropriate capital structure. Debt can provide financial leverage and tax-related benefits, but excessive borrowing may create financial distress and repayment risks. Financing decisions therefore require balancing potential profitability against financial stability. Myers (1977) further developed the understanding of borrowing by highlighting agency-related difficulties associated with debt. Excessive risky debt can influence investment behaviour and generate conflicts between shareholders and creditors. The study demonstrated that the benefits of borrowing cannot be considered independently of financial distress, reduced flexibility and possible underinvestment.

These theoretical developments provide the foundation for the trade-off interpretation of capital structure. Debt may produce benefits, but these benefits have to be balanced against the costs associated with excessive leverage. The relevant financial decision is therefore not simply whether debt is beneficial, but how much debt can be employed before its additional risks and costs begin to outweigh its benefits. The Nepalese evidence reviewed by Baral (2004) also provides support for another important interpretation of financing behaviour. The study found a negative relationship between profitability and leverage among listed Nepalese companies, suggesting that more profitable firms may rely more strongly upon internally generated resources. This finding is consistent with the pecking-order view, under which firms tend to prefer internal finance before seeking external borrowing and, subsequently, external equity.

These theories lead to an important conclusion for life insurance research: no theoretical perspective supports a simple assumption that higher leverage must always improve performance. The effect of financing structure depends upon taxes, financial risk, investment opportunities, internal resources, market conditions and firm-specific characteristics.

5. Why Capital Structure is Especially Important for Insurance Companies

The relevance of capital structure in insurance differs from many other industries because insurers combine financial-intermediation functions with contractual risk obligations. Their financial position must provide sufficient confidence to policyholders while simultaneously generating acceptable returns. Chen and Wong (2004), examining the financial health of Asian insurance companies, found that profitability and efficient asset management contributed positively to insurer solvency, whereas excessive leverage and weak underwriting performance reduced financial stability. The findings demonstrate the close relationship among profitability, leverage and solvency in the insurance industry.

This relationship is particularly important for life insurers because policyholder obligations are long term. Capital-structure decisions that generate short-run benefits but weaken long-term solvency can therefore be undesirable even when they temporarily enhance shareholder returns.

Evidence from other emerging insurance markets also supports the importance of balanced leverage. Almajali and Shamsuddin (2019), examining insurance companies in Jordan, found that capital structure significantly influenced performance. Moderate and well-managed leverage supported profitability and operating growth, while excessive debt increased financial risk and negatively affected performance. Thus, the concept of an optimal capital structure in insurance must be interpreted more broadly than maximisation of accounting profit. A sound financing structure should also preserve financial resilience, solvency and the capacity to meet contractual obligations.

6. Capital Structure in the Nepalese Corporate Context

Research into Nepalese corporate financing provides useful background for understanding insurance-company decisions. Baral (2004) found that profitability was negatively related to leverage among listed Nepalese firms.

More profitable companies displayed a greater tendency to finance activities from internal resources. Firm size and asset structure also influenced access to borrowing. Larger companies and firms possessing greater fixed assets were generally better positioned to obtain debt because of credibility and collateral capacity. The study also observed that Nepalese firms adopted relatively conservative financing practices in an environment characterised by an underdeveloped capital market and limited long-term financing opportunities. This suggests that capital-structure decisions in Nepal cannot be interpreted solely through universal theoretical models; domestic financial-market conditions also influence the availability and desirability of different financing sources.

Bhattarai (2016) similarly examined leverage and firm performance in Nepal and found that excessive reliance on debt negatively affected performance through increased financial risk and interest obligations. At the same time, moderate borrowing could support expansion and growth when managed efficiently. Together, these studies provide an important contextual message. Debt is neither inherently beneficial nor inherently harmful. Its effect depends upon the level of borrowing and the capacity of the firm to utilise borrowed resources productively while servicing its obligations.

7. Empirical Evidence from Nepalese Insurance Companies

7.1 Bhattarai (2020): Positive Role of Leverage

Bhattarai (2020) provides one of the more directly relevant investigations into capital structure and financial performance in Nepalese insurance companies. The study examined 14 insurance companies using panel data from 2007/08 to 2015/16. Financial performance was measured through Return on Assets, while explanatory variables included total debt ratio, equity to total assets, leverage, firm size, liquidity and asset tangibility. The study found that equity-to-total-assets ratio and leverage had positive and statistically significant effects on financial performance. This indicates that an appropriate debt-equity combination may contribute positively to profitability.

Tangibility, however, showed a negative and statistically significant relationship with profitability under the fixed-effects specification. Firm size and liquidity were not statistically significant. The significance of Bhattarai's findings lies in their support for the proposition that leverage can be productive when used appropriately. Debt does not automatically weaken insurance-company performance. If borrowing finances productive assets or business expansion and remains within manageable limits, leverage can enhance returns. At the same time, the study covered both life and non-life insurers. Therefore, while highly relevant to the Nepalese insurance environment, its findings cannot automatically be assumed to represent the exact financing dynamics of life insurers alone.

7.2 Jaishi (2020): Debt and Profitability

Jaishi (2020) also examined 14 listed Nepalese insurance companies, including both life and non-life insurers. Return on Assets and Earnings per Share were used as performance measures, while total debt ratio, equity-to-total-assets ratio, firm size, liquidity and tangibility represented explanatory variables. The study reported a positive and significant impact of total debt ratio and tangibility on both ROA and EPS. In contrast, the equity ratio, firm size and liquidity displayed negative relationships with financial performance.

The findings again suggest that borrowing can contribute positively to profitability in the Nepalese insurance sector. Efficiently utilised debt may enhance returns, whereas excessive equity financing or idle liquid resources may reduce the productive use of capital. An important finding, however, was that non-life insurance companies performed better than life insurance companies during the study period. This reinforces the need to avoid treating the two segments as operationally identical. If profitability differs systematically between them, a combined sample may obscure relationships specific to life insurers.

7.3 Jaishi and Poudel (2021): Comparative Evidence

Jaishi and Poudel (2021) employed a panel of seven life and seven non-life insurance companies. Their results again indicated that companies with higher debt ratios demonstrated better financial performance. Asset tangibility positively affected ROA, while equity ratio, firm size and liquidity were negatively associated with profitability. The authors also reported superior performance of non-life insurers in terms of ROA and EPS. These findings strengthen the argument that leverage can have a positive role in Nepalese insurance profitability, but they simultaneously strengthen the case for separate life-insurance analysis. A relationship established from a combined sample can reflect different underlying effects within the two insurance categories.

8. Evidence Specifically Relating to Nepalese Life Insurance Companies

8.1 Hamal (2020): Debt, Investment and Firm Characteristics

Hamal (2020) focused specifically on seven life insurance companies listed on NEPSE over the period 2009/10 to 2018/19. Financial performance was measured through ROA and ROE.

The explanatory variables included firm size, liquidity, short-term debt, long-term investment and firm age. Firm size and long-term investment were found to have significant negative relationships with both ROA and ROE. Short-term debt and firm age also demonstrated negative relationships with financial performance. The finding concerning short-term debt is particularly relevant to capital-structure analysis. Life insurers manage long-duration liabilities, and excessive dependence upon short-term financial obligations may not be compatible with their long-term operating structure. This provides one possible reason why the effect of debt may differ depending upon its maturity and composition. Liquidity was positively but insignificantly associated with profitability. The results demonstrate that capital structure should not be reduced to a single aggregate debt ratio. The maturity structure of debt, investment allocation and firm characteristics may significantly influence performance outcomes.

8.2 Acharya (2021): Liquidity and Profitability

Although liquidity is not capital structure in the narrow sense, Acharya's (2021) analysis of Nepalese life insurers is useful because financing decisions interact with liquidity requirements. The study found that excessive liquidity could adversely affect profitability because idle resources reduce investment opportunities, whereas adequate liquidity remains essential for meeting policyholder obligations and preserving financial stability. This illustrates an important trade-off for life insurers. Financial managers cannot maximise profitability simply by reducing liquid resources, nor can they maximise safety by holding excessive liquidity without considering opportunity costs. The result parallels the broader capital-structure problem: financial performance is frequently maximised through balance rather than through the extreme use of one financing or asset-management strategy.

8.3 Bista (2022): Solvency, Assets and Profitability

Bista (2022) examined Nepal Life Insurance, National Life Insurance and LIC Nepal using data from 2010/11 to 2020/21. ROA and EPS were used as performance measures, while current ratio, solvency ratio, total assets and insurance premium served as explanatory variables. The study found relationships among liquidity, premiums, assets and profitability that varied depending on the performance measure. Insurance premium significantly influenced EPS, while current ratio and total assets significantly affected ROA. The findings are relevant because they demonstrate that financial performance within life insurance companies is multidimensional. Profitability cannot necessarily be attributed to leverage alone when premium generation, solvency, liquidity and utilisation of assets also contribute to financial outcomes.

8.4 Sapkota (2023): Multiple Determinants of Life-Insurance Profitability

Sapkota (2023) examined five Nepalese life insurance companies using ROA and ROE as measures of profitability. Firm size, premium growth, liquidity, solvency, firm age and book value per share were included as explanatory variables. The study found that firm size, premium growth and solvency significantly influenced profitability. Liquidity and firm age negatively affected profitability in several cases, while book value per share demonstrated a positive association. The study therefore reinforces the view that financing-performance relationships operate within a wider financial environment. Capital structure may affect profitability, but its effect must be assessed alongside solvency, premium generation and resource management.

9. Recent Evidence and the Continuing Debate

Perhaps the most important feature of recent Nepalese research is that it does not provide a single conclusion concerning capital structure.

9.1 Bhatta (2024): Insignificant Direct Effect

Bhatta (2024) directly examined the impact of capital structure on the profitability of Nepalese life insurance companies over the period 2013/14 to 2022/23. The study used ROA and ROE as profitability indicators and employed Debt-to-Equity Ratio, Debt-to-Total Assets Ratio and firm size as explanatory variables. The debt-to-equity ratio exhibited a positive but statistically insignificant relationship with both ROA and ROE. Debt-to-total-assets ratio had a negative but insignificant relationship with ROA and a positive relationship with ROE.

Multiple regression results indicated that the capital-structure variables did not significantly determine profitability, whereas firm size significantly affected financial performance. This result is particularly important because it directly challenges the assumption that leverage by itself is necessarily a decisive determinant of life-insurance profitability. Rather than implying that financing decisions are irrelevant, the findings suggest that their effect may be conditional upon other operational and managerial characteristics. A company with an apparently favourable debt-equity ratio may still perform poorly if assets are inefficiently deployed, costs are high or investment decisions are weak.

9.2 Karki (2024): Importance of Balanced Leverage

Karki (2024), examining Nepalese insurance companies, arrived at a somewhat different conclusion. Debt-equity ratio was positively related to ROE, suggesting that moderate borrowing may improve shareholder returns. However, excessive leverage adversely affected ROA because of financial risk and interest obligations. Liquidity was negatively associated with profitability, while firm size and tangibility positively influenced performance.

These findings provide strong support for a non-linear interpretation of leverage. Some debt can be beneficial, but the advantages diminish and may eventually be reversed as financial obligations become excessive. The combined evidence from Bhatta and Karki therefore demonstrates precisely why further analysis is needed. Even recent Nepalese research provides no single universally applicable relationship between capital structure and financial performance.

10. Understanding the Contradictory Empirical Findings

The inconsistencies across existing studies should not necessarily be interpreted as methodological failure. They may instead reflect the underlying complexity of the relationship.

10.1 Different Measures of Capital Structure

Capital structure is measured differently across studies. Some researchers use total debt ratio, while others employ debt-equity ratio, debt-to-total-assets ratio, equity-to-assets ratio or short-term debt. Different indicators capture different aspects of financing. Short-term liabilities, for example, can affect a life insurer differently from longer-term funding. Therefore, studies using different capital-structure measures need not produce identical results.

10.2 Different Measures of Financial Performance

ROA measures profitability relative to assets, while ROE measures returns generated on shareholder equity. EPS focuses more directly on earnings attributable to shareholders. Financial leverage can increase ROE even where ROA does not improve because the same earnings are generated over a smaller equity base. Consequently, a capital-structure variable may be positively associated with ROE but negatively or insignificantly associated with ROA.

The reviewed evidence provides examples of precisely these differences. This demonstrates why conclusions about “financial performance” should specify the performance measure being considered.

10.3 Life and Non-Life Insurance Differences

Many Nepalese studies combine life and non-life insurance companies despite differences in liability maturity, premium structure, claims behaviour, investment patterns and operational risk. Jaishi (2020) and Jaishi and Poudel (2021) both found performance differences between life and non-life insurers. This indicates that combining both groups can produce average relationships that do not fully represent either group separately.

10.4 Firm-Specific Characteristics

Liquidity, solvency, firm size, tangibility, investment structure and premium growth repeatedly emerge in the literature as determinants of profitability. Capital structure therefore operates within a wider network of financial decisions. Debt may produce favourable results in a company with strong premium growth, effective investments and appropriate liquidity, while producing weaker outcomes in another company with inefficient assets or excessive operating obligations.

10.5 Time Period and Regulatory Environment

Studies cover different time periods. Changes in capital requirements, regulation, competitive structure and market conditions can alter the financial consequences of borrowing.

Findings derived from older periods may therefore not fully represent the present Nepalese insurance environment. The changing structure of the sector strengthens the need for research based on updated data.

11. Analytical Synthesis

The reviewed theoretical and empirical evidence supports a balanced interpretation of capital structure. At one extreme, the original Modigliani-Miller framework demonstrates that under perfect assumptions financing mix would not independently alter firm value. Once real-world factors are introduced, however, debt can produce both advantages and disadvantages. Debt may provide financial leverage and permit firms to finance growth without proportionately increasing shareholder equity. Appropriately managed leverage can consequently improve returns. Bhattarai (2020), Jaishi (2020) and Jaishi and Poudel (2021) provide evidence consistent with this positive relationship in Nepalese insurance companies. At the other extreme, debt creates obligations. Interest and repayment commitments can reduce financial flexibility and increase risk. Hamal (2020) reports a negative relationship between short-term debt and profitability among life insurers, while the broader Nepalese evidence reviewed by Bhattarai (2016) similarly warns against excessive leverage.

The relationship can therefore be represented conceptually as:

Moderate and Productive Leverage → Greater Financial Capacity → Business Expansion and Efficient Use of Equity → Improved Profitability

but:

Excessive Leverage → Greater Financial Obligations → Interest Burden and Financial Risk → Reduced Profitability and Financial Stability

The critical issue is consequently not whether debt should or should not be used. It is the determination of a financing structure compatible with the firm's operating characteristics, solvency requirements and financial capacity.

For life insurance companies, this balance is particularly important because profitability cannot be pursued independently of the ability to meet policyholder obligations. The appropriate financing mix must therefore preserve both returns and financial soundness.

A second conclusion is that capital structure alone is insufficient to explain financial performance. The reviewed evidence repeatedly identifies liquidity, size, solvency, tangibility, investment policies and premium growth as additional determinants.

This can be expressed more broadly as:

Capital Structure + Liquidity + Solvency + Investment Management + Firm Characteristics → Financial Performance

Accordingly, empirical models that examine debt-equity ratios without appropriate firm-specific factors may provide an incomplete explanation of insurance profitability.

12. Research Gap

The review identifies several areas in which further research remains justified.

First, the number of studies focusing exclusively on life insurance companies listed on NEPSE remains limited. Several influential Nepalese studies combine life and non-life insurers, even though the two categories differ materially in their financial and operational structures. Second, existing results concerning leverage remain contradictory. Bhattarai (2020), Jaishi (2020) and Jaishi and Poudel (2021) provide evidence of positive effects from debt or leverage. Hamal (2020) identifies an adverse relationship between short-term debt and life-insurance performance, whereas Bhatta (2024) finds conventional capital-structure indicators largely insignificant.

Consequently, the Nepalese literature has not produced a universally accepted conclusion regarding the effect of financing mix upon profitability. Third, several studies concentrate on one or two performance indicators. ROA and ROE dominate the literature, while other dimensions of financial performance receive comparatively less attention. The choice of performance measure is important because leverage can produce different effects on asset-based and equity-based profitability. Fourth, firm-specific variables have not been incorporated uniformly across previous research. Liquidity, solvency, tangibility, firm size, premium growth and investment structure can all influence financial performance and may alter the apparent relationship between leverage and profitability. Fifth, the Nepalese insurance sector has experienced changing regulatory and competitive conditions. Findings derived from earlier datasets may therefore not completely explain contemporary financing behaviour.

Finally, NEPSE listing creates a further dimension because financing decisions can potentially relate not only to accounting profitability but also to shareholder outcomes and market valuation. Yet most existing studies emphasise accounting-based indicators. These gaps demonstrate the value of updated empirical research

concentrating specifically on selected NEPSE-listed life insurance companies and examining capital-structure variables alongside suitable financial-performance indicators and relevant control variables.

13. Discussion and Implications

The review has several implications for financial managers and researchers.

For management, the evidence cautions against mechanical financing rules. A policy of maximising debt merely because leverage can increase shareholder returns is not supported by the literature. Equally, complete avoidance of debt may prevent firms from benefiting from financial leverage and external financing opportunities. Capital-structure decisions should instead be linked with cash-flow capacity, solvency, investment opportunities, liquidity requirements and the maturity profile of obligations.

For life insurers, matching the structure of financing with the long-term nature of insurance liabilities becomes especially important. Excessive short-term financial commitments may create pressure even where overall leverage appears acceptable. For investors, leverage ratios should not be interpreted in isolation. A highly leveraged insurer may perform well if borrowing is efficiently utilised and supported by strong profitability and solvency. Conversely, a low-debt firm does not necessarily guarantee superior financial performance if investments, assets or liquidity are managed inefficiently. For regulators, the literature highlights the need to view profitability and solvency together. Financing arrangements that enhance short-term shareholder returns but weaken financial resilience can create risks for policyholders. For researchers, the mixed evidence suggests that more attention should be given to differences among firms, measurement choices and time periods. Future studies should distinguish clearly between types of leverage and between ROA, ROE and other performance indicators.

14. Future Research Directions

Future empirical research can develop the literature in several ways. First, life and non-life insurance companies should be analysed separately wherever the research question concerns sector-specific financing behaviour. Second, studies should employ updated data so that conclusions reflect the contemporary structure of Nepal's insurance sector. Third, capital structure should preferably be represented through more than one indicator. Debt-to-equity ratio, total debt ratio and debt maturity can capture different dimensions of financing. Fourth, financial performance can be assessed through multiple indicators rather than a single profitability measure.

Fifth, appropriate firm-specific variables such as liquidity, solvency, size, tangibility, premium growth and investment structure should be incorporated where justified. Finally, because listed insurance companies operate within the capital market, future investigations can consider whether financing decisions influence market-based outcomes in addition to accounting profitability. Such developments would permit a more comprehensive understanding of how financing decisions influence both the stability and performance of Nepalese life insurers.

15. Conclusion

Capital structure remains an important but complex determinant of corporate financial performance. The theoretical literature demonstrates that the relevance of debt and equity arises from real-world considerations including taxation, financial distress, agency conflicts, market imperfections and differences in access to financing. The issue assumes particular significance for life insurance companies because their financial decisions must simultaneously support profitability, solvency and the fulfilment of long-term policyholder obligations. The empirical literature reviewed in this paper provides no uniform relationship between leverage and financial performance. Several Nepalese studies report that debt and leverage positively influence profitability and shareholder returns when borrowing remains appropriate and productive. Other studies indicate that excessive or short-term debt may weaken profitability, while recent life-insurance evidence also reports insignificant relationships between conventional capital-structure ratios and performance.

These seemingly contradictory results point towards a common conclusion: capital structure influences financial performance conditionally rather than mechanically. The effect depends on the amount and type of leverage, the performance indicator selected and the financial characteristics of the firm. Liquidity, solvency, firm size, tangibility, premium growth and investment management also influence the financial performance of life insurers. Consequently, financing mix should be examined as one component of a broader financial-

management system rather than as an isolated determinant. The Nepalese literature further reveals a significant sector-specific research gap. Many existing studies combine life and non-life insurers, even though their operating and financial structures differ. Relatively fewer studies directly examine the capital-structure decisions of selected NEPSE-listed life insurance companies using recent data. The review therefore supports further focused empirical investigation of Nepalese life insurers. Such research can provide clearer evidence concerning the level and composition of leverage that is compatible with profitability, solvency and long-term financial sustainability.

Ultimately, the objective of capital-structure management in a life insurance company should not be the maximisation of debt or the minimisation of debt. It should be the development of a balanced financing structure that enables the company to use financial resources efficiently while preserving its capacity to meet long-term obligations and create sustainable value for shareholders and policyholders.

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