

Corporate Governance Mechanisms and Their Impact on the Nepalese General Insurance Industry

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ABSTRACT

This study aims to examine the influence of corporate governance practices on the performance of Nepal's general insurance industry. This study covers four major insurance companies: NECO Insurance, Sagarmatha Insurance, Rastriya Beema, and Shikhar Insurance. This study will use a mixed-method approach in which quantitative data will be combined with qualitative findings. Quantitative data will be based on a survey of 233 industry professionals. In addition to this, qualitative findings will be based on 7 in-depth interviews from senior executives and insurance industry experts. The findings have revealed that corporate governance has a strong influence on the performance of Nepal's general insurance industry. The regression coefficient has been found to be 0.507 ($p < 0.001$), which indicates a one-unit improvement in corporate governance will lead to a 0.507-unit improvement in the performance of the insurance industry. Board oversight and accountability have a strong influence on the insurance industry's performance ($\beta = 0.617$), while regulatory compliance has a stronger influence ($\beta = 1.023$). In contrast, a negative coefficient has been found in the case of disclosure and transparency practices ($\beta = -0.179$). NECO Insurance has been found to have a strong correlation between governance frameworks and stable financial performance. This study has found critical challenges in the insurance industry in Nepal. Board interference in operations has been found to be a major challenge (72.1%), followed by passive non-executive directors (73.4%) and recruitment difficulties (70.4%).

KEYWORDS

Corporate Governance, Board Oversight, Regulatory Compliance, Insurance Industry, Nepal, Financial Performance

INTRODUCTION

Corporate governance can be defined as the body of rules, conventions, and processes that govern the management and control of a corporation. This includes the relationships between the shareholders of the corporation, the board of directors, the management team, and the other stakeholders (OECD, 2010). In the most general sense, corporate governance determines the processes that govern the achievement of organizational objectives. In the financial services industry, corporate governance plays a particularly important role because financial services organizations are entrusted with the responsibility of managing public funds. Furthermore, financial services organizations are pillars of economic stability. Insurance organizations receive premiums from their customers and invest these funds in productive areas of the economy. In the process, insurance organizations provide employment to the workforce. Insurance organizations also provide financial cover against unforeseen occurrences such as natural disasters, accidents, and business interruptions (Jensen & Meckling, 1976).

In Nepal, the insurance industry has witnessed considerable change over the past few years with regards to regulatory and structural changes. The Insurance Act of 2079 BS (2022) and the directives set by the Nepal Insurance Authority (NIA) have laid down formal requirements with regards to the composition of the board of directors, internal control processes, financial

disclosure practices, risk management processes, and capital adequacy requirements of insurance companies (Beema Committee, 2023). These changes demonstrate a larger national commitment to improving governance standards within the financial sector as a whole. However, the general insurance industry within Nepal has been plagued with considerable governance challenges. The boards of directors within insurance companies have not met the required standards with regards to independence and strategic leadership. Non-executive directors often remain passive members of the board rather than actively contributing members. Information asymmetry has been a major challenge within the Nepalese insurance industry as inconsistencies within financial reporting make it challenging to assess the performance of the company as a whole. Compliance with regulatory requirements has been more of a procedural exercise rather than a demonstration of actual governance culture.

Research Objectives

This study has set an aim to investigate the impact of corporate governance practices like board oversight and accountability, disclosure and transparency, and regulatory compliance on the performance of the general insurance industry of Nepal with special reference to four insurance companies: NECO Insurance Company, Sagarmatha Insurance Company, Rastriya Beema Company, and Shikhar Insurance Company. The objectives of the study are:

1. To assess the board oversight and accountability status of insurance companies and its effect on the performance of the general insurance industry in Nepal.
2. To evaluate the disclosure and transparency practices of insurance companies in the general insurance industry.
3. To examine the regulatory compliance status of insurance companies in the general insurance industry.
4. To determine the extent to which corporate governance is effective in enhancing the performance of the general insurance industry.

Literature Review

Theoretical Literature

The relationship between corporate governance and organizational performance has been examined through several influential theoretical frameworks. Agency theory is one of the fundamental theories that underlies modern corporate governance studies, as developed by Jensen and Meckling (1976). It posits that agency problems or conflicts of interest between the principal and the agent, or between the shareholders and managers of the firm, are inherent because of the separation of ownership and control in corporations. These agency problems or conflicts of interest impose agency costs on the firm that can be measured as the sum of monitoring costs, bonding costs, and residual losses. In order to reduce agency costs, several agency governance mechanisms are adopted to align the interests of managers with those of the shareholders. In the insurance industry, agency problems or conflicts of interest are particularly pronounced because managers have considerable discretion over policyholder funds to invest as they see fit, making agency governance mechanisms particularly important to curb managerial opportunism (Huang et al., 2011).

However, another perspective on governance was offered by Davis et al. (1997) with their stewardship theory, which argues that managers are not self-interested but that their motivation stems from intrinsic rewards like professional success and organizational success. In that sense, governance structures that place emphasis on monitoring and controlling may not only be futile but may also negatively impact managerial motivation and expertise. In fact, the stewardship theory suggests that governance structures that empower rather than restrict the management

may be more appropriate, especially when managerial competence and loyalty can be guaranteed.

Hillman and Dalziel (2003) suggested an integration of agency and resource dependence theories, arguing that board capital, which refers to the human and social capital of the board members, has implications for both the monitoring role suggested by agency theory and the resource provision role suggested by resource dependence theory. This perspective may particularly apply to the insurance industry because boards are required to fulfill both roles of monitoring and providing access to expertise and resources.

Resource dependence theory, as developed by Pfeffer and Salancik (1978), asserts that organizations are dependent on their external environment to obtain resources that are necessary to their survival and that the board of directors acts as a strategic device to cope with this dependence. In terms of board composition, the resource dependence perspective asserts that the role of the board is not only to monitor but to connect the organization with critical external constituents. In terms of the insurance industry in Nepal, the resource dependence perspective asserts that the benefits of board membership go beyond monitoring to include providing access to resources. Fama and Jensen's (1983) extension of the theoretical understanding of the role of boards of directors asserts that the board's role is to exercise decision control as opposed to decision management, which is the responsibility of the executive management team. This perspective asserts that the boundaries between governance and management must be clearly delineated, which has been a problem within the insurance industry in Nepal because of the tendency of the board to interfere with the operations of the business.

Stakeholder theory, as propounded by Freeman (1984), argues that good governance goes beyond the relationship between shareholders and managers to incorporate a broader set of stakeholders, including employees, consumers, regulators, creditors, and the wider community. In the context of insurance companies, this theory suggests that good governance should not only be evaluated in terms of economic returns to shareholders but also in terms of service quality to policyholders, compliance with regulatory requirements, and contribution to economic stability. Institutional theory, as propounded by Williamson (1996) and further developed by DiMaggio and Powell (1983), focuses on the impact of external pressures on organizational structures and processes, including pressures to conform to legitimate organizational forms, even when this may require organizational inefficiencies. This theory is highly relevant in explaining why some firms in emerging markets may adopt good governance structures, such as audit committees and disclosure policies, and independent directors, without necessarily internalizing these structures into good governance culture, a situation also known as symbolic compliance. All these theoretical frameworks provide a rich foundation for examining the complex relationships between governance structures and performance outcomes in Nepal's general insurance industry.

Empirical Literature

Significant research has explored the link between corporate governance and organizational performance in a variety of industries and settings. A study by Anderloni and Tanda (2020) undertook an exhaustive bibliometric and meta-analytical study of research into corporate governance and performance in the insurance industry published between 1985 and 2019. They found substantial empirical agreement on the link between board size and the presence of independent directors and organizational performance in the insurance industry. Nevertheless, they also discovered that the strength and direction of these associations vary significantly

across different nations, with emerging market research networks lagging behind in terms of development. In terms of efficiency in the US property-liability insurance industry between 2000 and 2007, Huang et al. (2011) found substantial associations between corporate governance and technical efficiency, with board characteristics and ownership structures being critical determinants. This research into the corporate governance-performance link in the context of the developed insurance industry can be used as a benchmark against which the link between corporate governance and performance is evaluated in the general insurance industry in Nepal.

In the broader financial services domain, Daily et al. (2003) conducted a review of decades of research into corporate governance, concluding that while the impact of governance practices is consistently felt, the nature of the relationship is necessarily mediated by a variety of factors. A more recent study by Nguyen et al. (2024), conducted among listed companies operating in the Vietnamese market over the period from 2019 to 2021, concluded that corporate governance practices do exert a significant positive influence on financial performance, with the independence of the board and the audit committee being critical determinants. Moreover, the study concluded that the nature of the relationship between corporate governance practices and financial performance was moderated by the level of enforcement of regulations, thereby supporting the institutional theory of corporate governance. Al-ahdal et al. (2023), studying the nature of the impact of corporate governance practices on the financial performance of companies operating in the Indian and Gulf country markets from the period from 2010 to 2017, concluded that while the impact of transparency and disclosure practices was positive, as reflected in the level of Tobin's Q, the broader nature of the relationship between corporate governance practices and financial performance was less clear.

In the insurance industry, in particular, a study by David and Tobias (2013) set out to explore the impact of corporate governance on the financial performance of insurance firms in Kenya, where a positive relationship was established in favor of corporate governance, with a focus on board composition and regulatory compliance as key drivers of profitability and operational efficiency in the firms in question. Similarly, a study by Osman and Samontaray (2022) set out to explore the relationship between corporate governance and performance in Saudi Arabia's insurance firms, where a positive relationship was established in favor of corporate governance, with a focus on the effectiveness of boards and transparency in enhancing performance in the firms in question. In another study, Muhammad et al. (2020) set out to explore the impact of corporate governance mechanisms on profitability in Pakistan's insurance firms, where a positive relationship was established in favor of corporate governance, with a focus on the effectiveness of audit committees, independence of directors, and ownership structure in enhancing profitability in firms in question. In a different study, Elamer et al. (2018) set out to explore the relationship between corporate governance and risk-taking in insurance firms, where a positive relationship was established in favor of corporate governance, with a focus on the composition of boards in influencing risk management in firms in question, where independent directors were found to play a moderating effect in constraining risk-taking in firms in question.

In terms of research on the relationship between transparency, disclosure, and performance, perhaps some of the more nuanced research outcomes have emerged in this area. Corporate governance transparency and valuation studies, drawing on a synthesis of evidence from developed and emerging markets, have found that firms with more transparent and stronger disclosure systems tend to enjoy valuation premiums and lower costs of finance, although these

relationships are highly variable (Avinash & Mahesh, 2026). With respect to emerging markets in particular, Denis and McConnell (2003) found that in terms of empirical evidence on the relationship between corporate governance and firm performance, this evidence tends to be inconclusive, partly because “corporate governance structures that are ‘optimal’ in one country may be ‘suboptimal’ in another because of differences in legal systems, enforcement mechanisms, and existing ownership structures.” This finding is also in line with more recent developments in the governance literature in terms of a more nuanced understanding of the relationship between formal compliance and governance quality in general, although in emerging markets in particular.

In the Nepalese context, the existing body of research on corporate governance is still limited but has been growing. Acharya (2023) conducted research into the application of corporate governance practices in the insurance sector of Nepal. His research concluded that, while the legislative environment has been significantly improved through the legislative reforms undertaken recently, the actual implementation of the practices has been found wanting, especially with regard to the requirement for the composition of the boards of the insurance companies. Maharjan (2019) concluded his research into the application of corporate governance practices in the Nepalese insurance sector by stating that there is a positive association between corporate governance practices and financial performance, with the better-governed insurance companies reporting better financial performance. However, the research concluded that the smaller insurance companies are lagging behind the larger ones in the implementation of corporate governance practices. Tiwari et al. (2024) concluded that the association between the actual application of the different components of corporate governance practices and the actual performance is still weak in the life insurance sector of Nepal, due to the fact that the companies are only symbolically complying with the different components of corporate governance practices.

Research Gap

Firstly, limited literature is available that specifically addresses the non-life insurance sector of Nepal, as the previous studies have focused primarily on the developed world or the banking sector. Secondly, the available literature addresses the various financial performance issues but fails to sufficiently measure the effectiveness of the process of corporate governance. Thirdly, the relationship between regulatory compliance, board effectiveness, and transparency is an under-researched area, particularly in the context of the emerging world where corporate governance is often structural rather than substantive. This study seeks to bridge the existing gaps in the available literature by providing a comprehensive empirical study of the general insurance sector of Nepal.

Conceptual Framework

Based on theoretical foundations and empirical evidence, this study conceptualizes general insurance industry performance as a function of corporate governance. The mathematical representation is:

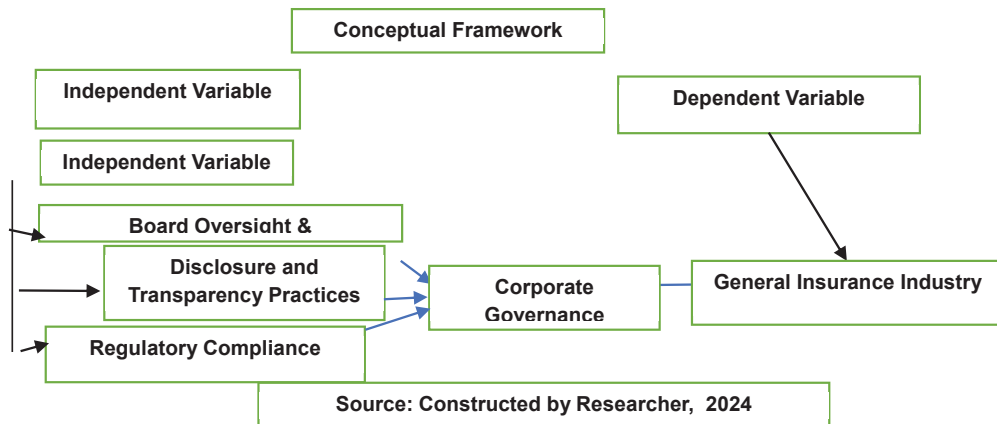
$$GII = f(CG)$$

GII stands for the performance of the General Insurance Industry, while CG stands for Corporate Governance. The concept of corporate governance can be divided into three parts: First, Board Oversight and Accountability, in which the effectiveness of boards in overseeing the management of an organization and holding people accountable is considered. Second, Disclosure and Transparency Practices, in which the effectiveness of disclosure is considered. Third, Regulatory Compliance, in which the effectiveness of an organization in adhering to laws and best practices in governance is considered.

Hypotheses

Based on this framework, the following hypotheses are tested:

1. H₁: There is a statistically significant relationship between Board Oversight and Accountability and General Insurance Industry performance ($\rho \neq 0$).
2. H₂: There is a statistically significant relationship between Disclosure and Transparency Practices and General Insurance Industry performance ($\rho \neq 0$).
3. H₃: There is a statistically significant relationship between Regulatory Compliance and General Insurance Industry performance ($\rho \neq 0$).
4. H₄: There is a statistically significant relationship between overall Corporate Governance and General Insurance Industry performance ($\rho \neq 0$).



RESEARCH METHODOLOGY

Research Design and Philosophy

This study adopts a pragmatic philosophical approach, recognizing that governance systems evolve with changing political, social, and economic contexts. Nepal's transition from a unitary to a federal system, and its emphasis on inclusivity in its constitution, require a research methodology that is sensitive to the local context. This research uses a mixed-method sequential design, beginning with quantitative research based on financial data and surveys, followed by qualitative research based on expert discussions and conversations.

Population and Sample

The target population in this study comprises all the general insurance companies operating in Nepal. For this study, four insurance companies were selected non probability quota sampling with disproportionate selection procedure, namely Sagarmatha Insurance Co. Limited, NECO Insurance Co. Limited, Shikhar Insurance Co. Limited, and Rastriya Beema Co. Limited, which represents the private sector and a government-owned general insurance company, respectively. The total employee and population in these four companies is 1,634. Using a sample size calculator with a confidence level of 95% and a margin of error of 5%, the sample size of this study was calculated to be 233 respondents, ensuring statistical representativeness of the employee population.

Data Collection

Primary data were collected through structured questionnaires distributed to employees of the four selected insurance companies. Out of the total population of 1,634 employees, 250 questionnaires were distributed, and 233 valid responses were received, yielding a final sample of 233 respondents. This represents 14.25% of the total population, which is statistically

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appropriate for a finite population. The respondents represented various management levels, including CEOs, senior managers, chief managers, managers, and departmental heads. Additionally, key informant interviews were conducted with 7 senior executives and insurance industry experts to gather qualitative insights into corporate governance practices. For secondary data, annual reports of the selected companies were collected for the fiscal years 2074/75 to 2078/79 (2017-2022). Key performance indicators extracted included claim volume, claim payment, net worth, total assets, net profit, premium collection, and reinsurance business.

Data Analysis

Quantitative data were analysed using descriptive statistics (mean, standard deviation, coefficient of variation) and inferential statistics (correlation analysis, multiple regression analysis). The regression model specified is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y = General insurance industry performance

X_1 = Board oversight and accountability

X_2 = Disclosure and transparency practices

X_3 = Regulatory compliance, α = Constant term, β = Regression coefficients

ε = Error term

Qualitative data from interviews were analysed thematically to corroborate quantitative findings. Reliability was assessed using Cronbach's Alpha, yielding values above 0.8 for all constructs, indicating high internal consistency.

RESULTS AND ANALYSIS

Financial Performance Trends

Analysis of key financial indicators from FY 2074/75 to 2078/79 reveals generally positive trends across all four insurers, with some fluctuations (Table 1).

Table 1: Performance Trend Analysis (FY 2074/75 – 2078/79)

Insurance Company	Average Trend (%)
Shikar Insurance	34
NECO Insurance	8
Rastriya Beema	84
Sagarmatha Insurance	36
Overall Average	36

NECO Insurance showed a slight decrease of 1% in FY 2076/77 but recovered subsequently. The positive trends suggest that existing corporate governance frameworks are producing desirable outcomes, though variability in specific indicators (claims management, dividend payments) indicates areas requiring attention.

Board Oversight and Accountability

Descriptive analysis reveals generally positive perceptions of board effectiveness (Table 2).

Table 2: Board Oversight and Accountability

Indicator	% Agree/Strongly Agree	Mean (SD)
Board focuses on operations	72.1	3.76 (0.91)
Board guides strategy implementation	72.5	3.79 (1.28)
Board improves organizational performance	78.1	3.86 (1.07)

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Board conducts business with integrity	63.5	3.48 (1.08)
Board independent from chairman	78.1	3.87 (1.07)
Committees enhance functionality	82.4	4.16 (1.10)
Regular internal audit reports	81.1	4.09 (1.09)
Open CEO-board communication	79.9	4.08 (1.10)

Notably, 72.1% of respondents indicated that boards are actively involved in daily operations, raising the possibility of boundary issues in the board's governance and management roles. Although 78.1% of r

espondents recognized the board's strategic importance, only 63.5% perceived boards as conducting business in integrity, implying a perception gap in board ethics. Regression analysis showed that Board Oversight and Accountability was a significant predictor of industry performance ($\beta = 0.617$, $p < 0.001$), thus supporting H₁. The correlation coefficient of 0.979 between board oversight and industry performance is a very strong positive relationship.

Disclosure and Transparency Practices

Perceptions of transparency practices showed moderate to strong agreement (Table 3).

Table 3: Disclosure and Transparency Practices

Indicator	% Agree/Strongly Agree	Mean (SD)
NIA guides insurance sector effectively	68.6	3.90 (1.24)
Regulation halts customer exploitation	70.0	3.86 (1.21)
NIA upholds female directors' rights	63.1	3.63 (1.15)
Board joining dates disclosed	63.9	3.67 (1.17)
Directors disclose current positions	63.9	3.68 (1.23)
Governance charter in annual report	65.7	3.67 (1.17)

Although 73% expressed satisfaction with levels of transparency, indicating overall satisfaction with levels of transparency and disclosure practices, regression analysis revealed an unexpected negative coefficient for disclosure and transparency ($\beta = -0.179$, $p = 0.047$). This result contradicts H₂ and suggests that transparency practices may not only fail to provide performance benefits in proportion to compliance costs but also be implemented in a way that generates inefficiencies.

The negative coefficient also requires careful consideration. It may be argued that transparency practices, although well-intentioned, have generated administrative overheads that detract from more useful business practices. It may also be argued that transparency practices have been adopted as a symbol rather than a substantive practice.

Regulatory Compliance

Regulatory compliance emerged as the strongest predictor of industry performance (Table 4).

Table 4: Regulatory Compliance

Indicator	% Agree/Strongly Agree	Mean (SD)
Regulatory board's respectful role	79.8	4.06 (0.73)
Corporate governance in Nepal improved	76.9	3.96 (0.78)
Insurance Act attracts investors	72.5	3.85 (1.12)
Essential departments established	72.1	3.83 (1.12)
Policies safeguard minority shareholders	70.9	3.65 (1.26)
Board ensures claim settlement	67.4	3.72 (1.20)
Compliance with authority regulations	64.8	3.59 (1.15)

As a matter of fact, regression analysis revealed a strong positive correlation at $\beta = 1.023$ and $p < 0.001$. This affirms H₃. The correlation coefficient of 0.990 between regulatory compliance

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and performance is extremely high. This reveals that the NIA guidelines have a fundamental influence on governance.

This finding also reveals the significance of the Nepal Insurance Authority in laying the foundation for an environment that enables good governance. The relatively higher mean value of 4.06 for "Regulatory Board's Respectful Role" reveals that the NIA exercises its powers in an appropriate manner.

Correlation Analysis**Table 5:** Correlation Matrix

Variable	Board Oversight	Disclosure & Transparency	Regulatory Compliance	Industry Performance
Board Oversight	1			
Disclosure & Transparency	-	1		
Regulatory Compliance	-	-	1	
Industry Performance	0.979**	-	0.990**	1

Correlation is significant at the 0.001 level (2-tailed)

Disclosure and transparency practices were not found to have a significant positive correlation with industry performance, which is consistent with the negative regression coefficient later identified in the regression analysis (Table 5).

Overall Corporate Governance Impact

The composite regression model explained 98.5% of variance in industry performance ($R^2 = 0.985$, $F = 5115.9$, $p < 0.001$):

Variable	Unstandardized β	Standardized β	t	Sig.
(Constant)	0.895		0.891	0.374
Board Oversight	0.617	0.351	9.689	0.000
Transparency	-0.179	-0.117	-1.910	0.047
Compliance	1.023	0.765	13.602	0.000

The bivariate regression model testing overall corporate governance impact showed:

$$\gamma = 1.593 + 0.507 (CG)$$

This indicates that for every one-unit improvement in corporate governance, general insurance industry performance increases by 0.507 units ($p < 0.001$), supporting H_4

Hypothesis Testing Results**Table 6:** Hypothesis Testing Summary

Hypothesis	Statement	β/r	p-value	Result
H_1	Board Oversight & Accountability - Industry Performance	$\beta = 0.617$, $r = 0.979$	<0.001	Supported
H_2	Disclosure & Transparency - Industry Performance	$\beta = -0.179$	0.047	Rejected
H_3	Regulatory Compliance - Industry Performance	$\beta = 1.023$, $r = 0.990$	<0.001	Supported
H_4	Overall Corporate Governance - Industry Performance	$\beta = 0.507$	<0.001	Supported

Out of the four hypotheses, three were supported by the findings. H_1 and H_3 showed very strong positive correlations with industry performance, with regulatory compliance emerging as the strongest predictor ($\beta = 1.023$). H_4 provided support for the proposition that corporate

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governance, as a whole, has a statistically significant impact on industry performance ($\beta = 0.507$, $R^2 = 0.985$), accounting for 98.5% of the variance within the performance outcome. H₂, on the other hand, failed to support the hypothesis, with disclosure and transparency practices returning an unexpected negative coefficient ($\beta = -0.179$, $p = 0.047$). Although the findings are statistically significant, the reverse nature of the findings to the hypothesis proposed requires investigation and discussion within the Discussion section (Table 6).

Challenges and Problem Areas

The study identified several significant challenges:

Challenge Area	% Affected
Board operational interference	72.1
Passive non-executive directors	73.4
Recruitment difficulties due to policies	70.4
Qualified applicants lack enthusiasm	72.1
Compensation fails to motivate	77.2
Regulatory enforcement inconsistency	72.1
Conflict of interest concerns	41.2

The high figure of firms with a high percentage of passive non-executive directors (73.4%) is also of concern because these directors are theoretically very important in terms of providing an objective perspective.

The results also indicate that recruitment difficulties (70.4%) and the absence of candidate enthusiasm (72.1%) could highlight organizational culture problems that may act as a barrier to entering or continuing in the insurance industry.

The results that 77.2% believe that attractive remuneration does not motivate also raise concerns that remuneration packages may be out of line with the values of employees.

Qualitative Insight

Key informant interviews also verified the results of the quantitative study and provided further insights:

Regarding On-Board Composition: Experts also stressed the importance of board composition in terms of achieving true independence. A senior executive stated:

"While we do have non-executive directors in place, the level of true independence is suspect due to familial or business ties with our major shareholders."

Regarding Regulatory Enforcement: A key informant from the regulatory community stated:

"The NIA does have very good guidelines in place, but enforcement is spotty at best. We need more active supervision rather than just checking boxes in terms of compliance."

Regarding Shareholder Influence: Experts also raised concerns about the role of major shareholders in board composition. An expert stated:

"The election of directors is controlled by our major shareholders, so there is no true independence from the start."

Regarding Remuneration: Experts also stressed the importance of performance-based remuneration. An industry veteran stated:

"We can't just rely on fixed regulatory packages that do not encourage directors to get involved in strategic activities."

Company Specific Findings

NECO Insurance Co. Limited reported the best alignment in terms of governance and performance, as it reported a steady growth in net worth (CV 22.67%), stable profitability

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(mean NPR 431 million), and prudent risk management. The company's claim management reported a moderate variation (CV 22.77%) in comparison to dramatic variations in other insurance companies.

Sagarmatha Insurance Co. Limited reported strong profitability (mean NPR 366 million, CV 13.66%) along with stable asset growth; however, the company reported a high variation in claim payments (CV 139.65%), which may reflect a weak claim management system.

Rastriya Beema Co. Limited reported strong financial performance in terms of stable asset growth (CV 21.37%); however, the company reported extreme variation in claim frequency (CV 121.48%) along with no dividend payment.

Shikhar Insurance Co. Limited reported strong financial performance in terms of controlled claim payments (CV 13.14%) along with steady premium growth; however, the company reported an inconsistent dividend policy (CV 119.47%).

DISCUSSIONS

Board Oversight and Industry Performance

This confirms the positive relationship between board oversight and accountability and general insurance industry performance ($\beta = 0.617$, $r = 0.979$, $p < 0.001$), hence validating the first hypothesis. However, the fact that 72.1% of the respondents indicate the involvement of the board in day-to-day operations also reveals a general propensity for the board to overstep its monitoring role and encroach on the managerial space. This boundary problem, if not addressed, threatens to undermine the very effectiveness of the board's role in governance. In addition to this, the fact that only 63.5% of the respondents perceived the boards as operating with integrity also reveals a problem that needs to be addressed. Third, the highly correlated relationship between regulatory compliance and performance ($\beta = 1.023$) confirms the institutional theory perspective on the role of external pressures in shaping governance outcomes. This finding underlines the significance of regulatory frameworks in shaping governance outcomes in organizations in Nepal.

Discloser, Transparency and Performance

Contrary to expectations, disclosure and transparency practices returned a negative coefficient ($\beta = -0.179$, $p = 0.047$), leading to the rejection of H₂. This contradicts the conventional assumption that transparency positively affects performance and is consistent with Tiwari et al.'s (2024) observation that the relationship between governance elements and performance remains weak in Nepal. Two explanations are possible. First, transparency practices may have generated administrative overheads that detract from more productive business activities. Second, disclosure requirements may have been adopted symbolically rather than substantively, meaning compliance costs are being incurred without the corresponding performance benefits. This finding highlights the difference between structural governance compliance and genuine governance culture.

Regulatory Compliance as Performance Driver

Regulatory compliance was identified as the strongest predictor of industry performance with a high statistical significance of $\beta = 1.023$, $r = 0.990$, and $p < 0.001$ to support H₃. This confirms the perspective of the institutional theory with regard to the impact of external forces on governance outcomes and underlines the importance of the Nepal Insurance Authority's role in providing the framework that allows good governance to thrive. The relatively high mean score of 4.06 for "Regulatory Board's Respectful Role" would appear to confirm that the NIA is viewed as having a proper respect for its authority. However, the views of the key informants highlighted that there was a problem with the tick-box approach to regulatory compliance.

Integrated Governance Effects

This means that the regression model explained 98.5% of the variance in industry performance since $R^2 = 0.985$, $F = 5115.9$, and $p < 0.001$. Moreover, the overall coefficient for corporate governance ($\beta = 0.507$, $p < 0.001$) confirms hypothesis H4. This means that for every unit increase in corporate governance, the performance of the general insurance industry increases by 0.507 units. This confirms the hypothesis that collectively, corporate governance is a key determinant of performance. Moreover, the case of NECO Insurance Company represents the integrated effect of the above hypothesis most vividly since a high level of alignment between the two aspects was noted. Moreover, the varying performance of the four companies also confirms that it is not the implementation of the quality of corporate governance that ultimately determines performance.

LIMITATIONS

This study has some limitations, and the findings must be viewed with respect to the limitations of the study. Firstly, the study is based on four general insurance companies of Nepal: NECO Insurance, Sagarmatha Insurance, Rastriya Beema, and Shikhar Insurance, chosen through non-probability quota sampling. Therefore, the study cannot be generalized to the overall Nepalese insurance market and other emerging countries. Secondly, the study uses quantitative data collected through the opinions of the employees, which might have given rise to social desirability bias, especially with respect to the opinions on the board of directors' integrity and regulatory compliance. It is possible that the respondents might have tried to give a positive bias to the opinions about the companies they work for. Thirdly, the study uses secondary data on the financial information of the companies for only five fiscal years: 2074/75 to 2078/79. It might not have given rise to long-term trends and the lagged effect of the changes brought about by the new regulations on the companies' financial information. Fourthly, the study uses only seven key informant opinions, which might not have given rise to the depth and scope of the study. Finally, the study has failed to control for macro-economic factors like inflation, interest rates, or political instability, which may affect the insurance industry independently of the macro-governance indicators. Future research should seek to address the above research gaps by using larger and more representative samples, as well as a longer time period for financial analysis.

CONCLUSIONS

This study provides extensive evidence to support that corporate governance indeed significantly impacts the general insurance industry's performance in Nepal. While board oversight and accountability, as well as regulatory compliance and governance frameworks, have a positive impact, transparency practices show unexpected negative results, which warrant further examination. This study suggests a governance environment where structural consistency is present, but operational consistency is lacking. While boards are considered strategic and regulatory frameworks are present, challenges remain in areas of independence, director engagement, transparency standardization, and regulatory enforcement effectiveness. This is confirmed by a case study of NECO Insurance, where governance implementation results in positive financial stability, but mixed results indicate areas for improvement among other insurance firms. This study has significant implications for a number of different stakeholders. Executives in insurance firms now have a better idea how to improve governance within their organizations, regulators can now point to empirical evidence supporting a compliance-focused approach, and investors can now better assess governance within insurance firms. As the insurance industry continues to develop in Nepal, it is critical to continue to strengthen governance structures, including independence, director engagement,

transparency standardization, and regulatory effectiveness. This is because a positive relationship between governance and insurance industry performance was identified, which suggests that investing in governance improvements can lead to positive returns for insurance firms and, ultimately, the financial sector.

PRACTICAL IMPLICATIONS

For Insurance Companies: The results suggest that insurance companies should focus on enhancing the independence of their boards. They should also invest in training directors and develop clear boundaries between board oversight and management execution. In addition, they should develop performance-based compensation models for directors and managers.

For Regulators: The Insurance Authority of Nepal should focus on enforcing consistency and supervision. They should also standardize disclosure practices across insurance companies. In addition, they should enforce conflict of interest rules and develop mechanisms for protecting minority shareholder rights. The positive relationship between compliance and performance suggests that regulatory efforts can bring significant returns.

For Policymakers: Policymakers should consider reviewing those policies that hinder the recruitment of directors. They should also develop training programs for directors. In addition, they should develop programs aimed at making the insurance sector attractive to young professionals. They should also develop programs aimed at improving gender diversity in the insurance sector.

For Shareholders: Since the results suggest that dominant shareholders can negatively affect board quality by influencing director appointments, shareholders should demand transparency in director nomination procedures. In addition, they should participate in general shareholders' meetings. The results suggest that 24.5% of respondents felt shareholders did not participate sufficiently.

Future Research Suggestions

The following areas for further research are suggested by this study:

Comparative studies in the life and non-life insurance segments. Governance in the insurance industry examined over a longer time frame. A further exploration of the negative relationship between transparency and performance. The role of culture and politics in governance implementation. A comparison with governance development in other emerging markets. A closer examination of the specific mechanisms through which governance impacts operational outcomes, for example, in claims management efficiency.

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