



SAKHYAM ACCESS TO FINANCE



Study on the Microinsurance Industry in Nepal

January 2018



Louis Berger

In Collaboration with





DISCLAIMER

Sakcham Access to Finance Nepal is funded by UK aid from the British government; however the views expressed in this report do not necessarily reflect the UK government's official Policies.

This report, including any attachments hereto, may contain privileged and/or confidential information and is intended solely for the attention and use of the intended addressee(s). If you are not the intended addressee, you may neither use, copy, nor deliver to anyone this report or any of its attachments. In such case, you should immediately destroy this report and its attachments and kindly notify Louis Berger. Unless made by a person with actual authority, the information and statements herein do not constitute a binding commitment or warranty by Louis Berger. Louis Berger assumes no responsibility for any misperceptions, errors or misunderstandings. You are urged to verify any information that is confusing and report



बीमा समिति
BEEMA SAMITI

नेपालको बीमा नियमनकारी निकाय
Insurance Regulatory Authority of Nepal

Foreword

I would like to thank the UKaid-Sakchyam Access to Finance Programme (Sakchyam) for conducting and publishing this "Study on the Microinsurance Industry in Nepal", which assesses the status of the demand and supply of microinsurance in Nepal.

Among many things, this study highlights the different risks faced by low-income households in Nepal and their approaches to mitigating these risks, including their familiarity with and use of insurance. It highlights what types of products and services have been offered to-date and the evolving role of microinsurance as a particularly important tool for protecting low-income households, many of which are extremely vulnerable, by helping to reduce the fallout of specific events by better protecting assets.

Beema Samiti has been actively promoting microinsurance and introduced a "Microinsurance Directive" in 2014 to guide insurance companies in issuing microinsurance policies. Beema Samiti had earlier issued a "Crop and Livestock Directive" in 2013 for promoting agriculture insurance. In addition, the Government of Nepal has mandated insurance companies to have 5% of their portfolio in microinsurance, encouraging insurance companies to increase the number of products designed for and sold to low-income households.

The study also illuminates the challenges and opportunities of promoting microinsurance moving forward, including the need for effective delivery channels, tailored products, and a conducive legal and regulatory environment.

Together with the industry and with partners like UKaid-Sakchyam, we are confident that we can continue to make strides in better protecting Nepal's low-income households.

Chiranjibi Chapagain
Chairman
Beema Samiti

Contents

Executive Summary	3
1. Overview of the Sector Study of Microinsurance	5
1.1 Background	5
1.2 Methodology of Study	5
2. Global Overview of Microinsurance	6
2.1 Cross country comparison of microinsurance regulation.....	8
3. Overview of Microinsurance in Nepal	8
3.1 Insurance Industry Overview.....	8
3.2 Efforts to advance microinsurance	8
3.2.1 Role of Regulator	8
3.2.2 Role of Insurance Companies and other Stakeholders	9
3.2.2.1 Insurance Companies	9
3.2.2.2 Nepal Insurers' Association.....	11
3.2.2.3 Other Stakeholders.....	12
3.2.2.4 Government Run Social Security/Insurance Programme	13
4. Demand of Microinsurance in Nepal.....	14
4.1 Demography of respondents	14
4.2 Risk faced in daily lives, preparation and impact.....	15
4.3 Understanding of Insurance.....	17
5. Challenge of Microinsurance and the Way Forward.....	18
5.1 Challenges of Microinsurance	18
5.2 The Way Forward.....	19
Annexes.....	22
Annex I: List of organizations/persons met	22



Acronyms

CBMHI	Community Based Micro Health Insurance
CBOs	Community Based Organizations
CMSP	Cooperative Member's Security Policy
CPMI	Card Pioneer Microinsurance Inc.
DoCR	Department of Civil Registration
FINGOs	Financial Intermediary Non-Governmental Organizations
FGDs	Focus Group Discussions
GoN	Government of Nepal
ILO	International Labour Organization
LIC	Life Insurance Corporation
MFI	Microfinance Institutions
MNOs	Mobile Networking Operators
MoFALD	Ministry of Federal Affairs and Local Development
NEFSCUN	Nepal Federation of Savings and Credit Cooperative Unions Limited
NLIC	Nepal Life Insurance Company
NGOs	Non-Governmental Organizations
NPR	Nepalese Rupees
OPD	Out Patient Department
S-CF	Sakcham Challenge Fund
WII	Weather Index Insurance





Executive Summary

Microinsurance is insurance specially-designed to protect low-income households from the risks they face in their daily lives. In addition to a lower premium amount, microinsurance should be simple in design and have minimal exclusion, simple and easy documentation, and an easy and quick claim settlement to accommodate the needs of low-income households.

Agriculture is the largest contributor to national GDP and employment in Nepal; the agriculture sector provides over 28.9% of country's GDP and supports more than 65% of the population.¹ Despite the size of the sectors, the underlying infrastructural and weather related risks to the several value chains involved in agriculture in Nepal, there are very limited insurance options available. While insurance and non-insurance companies have been providing various products to low-income households on a small scale, microinsurance is still in its initial phase in Nepal. Livestock insurance is the common type of agro insurance or microinsurance offered all across the country.

Beema Samiti - the regulator of the insurance industry - has been promoting the expansion of microinsurance. In addition to the Government's subsidies (of up to 75%) on agriculture and the special issued set of microinsurance directives, the Government of Nepal has mandated that insurance companies have at least 5% of their total portfolio in microinsurance. These initiatives have increased the focus on the sector.

UKaid Sakcham's *State of the Microinsurance Industry in Nepal* report includes brief surveys undertaken to assess the supply and demand for microinsurance and the current challenges and way forward. The report also reviews the players in the sector, the microinsurance products on offer and an examination of the risks faced by low-income households; their coping mechanisms and general awareness of the insurance products. A total of 303 respondents representing both MFI and non-MFI members participated in the survey out of which 153 were MFI members while remaining 150 were not a member of any MFI.

The survey found that advancing microinsurance insurance in Nepal is a challenging task. Lack of cost efficient distribution channels, awareness, adequate infrastructure, and human resources were cited as some of the major obstacles. Regulators and other stakeholders therefore need to work together to bring informal microinsurance, a non-regulated financial product used to cover different risks of people, into the mainstream insurance sector. In addition, creating awareness of insurance, developing appropriate products, and using cost efficient distribution channels are needed to expand microinsurance.

UKaid Sakcham is working with different stakeholders to increase the access of financial products and services. Insurance being one of the most important areas of financial inclusion, Sakcham is working with different stakeholders including the regulator, insurance companies, Nepal Insurance Association (NIA) and microfinance institutions to expand insurance services to the poorer sections of the population deemed more vulnerable to shocks. Sakcham's initiatives in the micro-insurance sector

¹ Economic Survey 2016/17 & Nepal Portfolio Performance Review (MoAD) 2015



include regulatory support, as well as financial and technical support for product development and innovative financial literacy initiatives.

1. Overview of the Sector Study of Microinsurance

1.1 Background

The Sakcham Access to Finance for the Poor Programme (Sakcham) is an initiative funded by UKaid from the UK Government as part of an agreement between the Governments of Nepal and the UK. It is implemented by Louis Berger Group in partnership with local and international institutions.

The programme works with the public and private sectors to leverage access and facilitate financial sector development in Nepal. Sakcham works with different stakeholders in the financial sector through a Challenge Fund mechanism.

As part of an effort to enhance financial inclusion, the uptake of insurance is crucial to protect people's assets. Without such, unforeseen, unfortunate events can result in complete loss of assets, etc

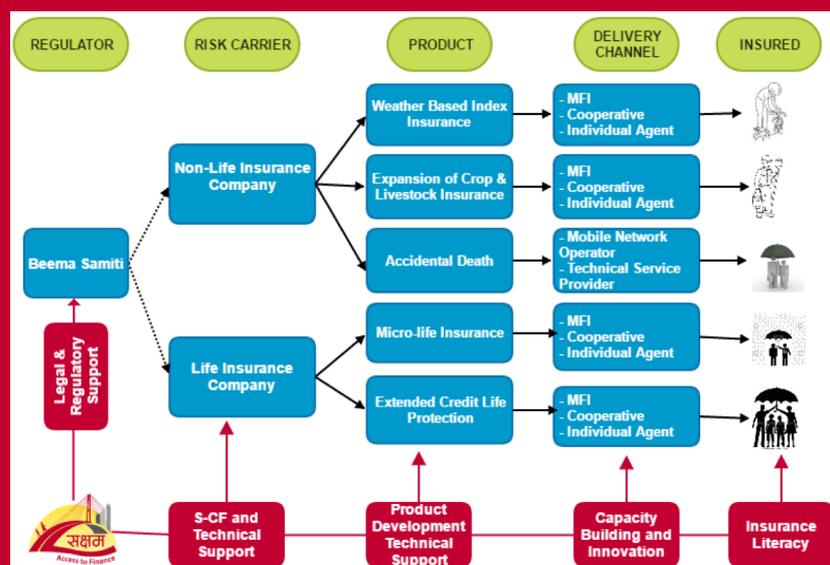
for the vulnerable groups. This need is particularly acute in Nepal, where insurance has believed to reach only 5%-8% of the population. Insurance products thus need to be developed and rolled out to lower the risks of smallholder farmers from natural disasters such as drought, excess rainfall during the monsoon season, landslides accompanying excessive rain fall, and earthquakes.

The details of Sakcham's level of engagement in micro insurance is shown in Box 1 above. In an effort to assess the supply and the demand side of micro insurance, Sakcham conducted a sector study to provide more insight into this emerging sector and the basis for a way forward. The supply side review focuses on the current informal and formal product offerings targeted to low-income households while the demand side focuses on the risks faced by low-income households, the risk management techniques used, and their understanding of insurance.

1.2 Methodology of Study

The information presented in this report are derived from both primary and secondary information. Primary data was collected from surveys and interviews. Interviews were conducted with different

Box 1: Sakcham's Work on Microinsurance



Sakcham has been supporting different stakeholders in the insurance industry to scale up microinsurance in Nepal. Sakcham's approach to assisting the insurance sector includes legal and regulatory support along with financial and technical support in product development

stakeholders including the insurance regulator, insurance companies, other informal insurance providers, etc. A list of people interviewed is presented in **Annex I**.

In order to assess the risk of low-income households, a simple demand survey was also conducted. Sakcham developed a questionnaire and oriented staff of its partner MFIs in the survey methodology. Responses from MFI clients from different parts of the country were collected while the Sakcham team also conducted a few surveys and Focus Group Discussions (FGDs) to verify information and triangulate the findings from the survey. Nielsen Nepal, a subsidiary of the Nielsen Company, conducted the surveys of non-MFI clients in 3 mid-western and far-western districts of Nepal.

2. Global Overview of Microinsurance

Microinsurance has been defined differently across contexts/countries. The International Labour Organization's (ILO) Microinsurance Innovation Facility defines microinsurance as a mechanism to protect poor people against risks (accident, illness, death in the family, natural disasters, etc.) in exchange for insurance premium payments tailored to their needs, income, and level of risk.

Microinsurance is an emerging field of financial inclusion for insurance companies, regulators, and other stakeholders. As a result, regulators have focused on creating a conducive environment to sell microinsurance to a larger number of low-income households.

At the same time, insurance companies worldwide have expanded the number of microinsurance offered. Initial products revolved around credit life products that protect the borrower's family in case of his/her death. Now, insurance providers are offering a range of microinsurance products covering a variety of risks including health, life, funeral, disability, agriculture (crop-based weather index and livestock), property, credit life, and disaster (natural and manmade).

Insurance providers have also begun to engage different stakeholders such as Mobile Network Operators (MNOs), Microfinance Institutions (MFIs), and Technical Service Providers (TSPs) to make microinsurance available to larger populations. In particular, mobile has been used as a distribution channel of microinsurance with a great degree of success. The use of mobile channels to improve a part of the insurance value chain including product design, pricing, marketing and sales, policy administration, and claims payment is termed as Mobile Microinsurance (MMI). Mobile Network Operators (MNOs) represent the fastest growing distribution channel of microinsurance across different regions. According to a study carried out by Munich Re Foundation,

Box 2: Success of Bima



Bima is one of the fastest-growing impact and tech companies in the world. Bima uses mobile technology to bring insurance and health services to consumers at the bottom of the pyramid, on an unprecedented scale. In five years, Bima has built a customer base of over 23 million subscribers in 16 markets across Africa, Asia, Latin America and the



40.3 million lives were covered in Asia by mobile microinsurance by mid-2016. MicroEnsure and BIMA (see accompanying **Box 2**) are the market leaders in the mobile microinsurance segment while several other companies have also entered this market segment. These companies partner with MNOs and insurance companies to serve some 78 million customers worldwide. A few global examples of the spread of microinsurance are explored further below.

India: India was one of the first countries to define microinsurance in 2005 within its regulatory framework, referring to microinsurance as insurance with claim payments less than Rs 50,000. Recently, the Government of India introduced different schemes of insurance such as Pradhan Mantri Jeevan Jyoti Beema Yojana (life insurance), Pradhan Mantri Surakshya Bima Yojana (personal accidental insurance), and Atal Pension Yojana (pension scheme) to protect low-income households. Launched in May 2015, 131.9 million lives have been covered through this scheme.

India has also been implementing agriculture insurance with great success. It started with a national agriculture insurance scheme in 1999 and modified and tested different agriculture insurance products. Similarly, the current government has introduced Pradhan Mantri Fasal Bima Yojana (crop) which is expected to increase insurance coverage from 23% of cropped area in India to 50%.

Philippines: Initially, the microinsurance market in Philippines was driven by the microfinance sector which was providing informal insurance in the form of mutual insurance that protected members against a prescribed set of events for a set premium.

The Insurance Commission-regulator of the insurance industry in the Philippines-issued three regulations and various circulars related to microinsurance over the span of nine years. More cohesive coordination among regulators of insurance, cooperatives, and non-governmental organizations (NGOs) also led to a few joint regulations to put microinsurance on the right path. In addition, after engaging different stakeholders, financial literacy on insurance was promoted to increase the level of awareness of insurance. The Insurance Commission of Philippines reported that 26 million Filipinos (or 25.4% of Filipinos) are now covered by microinsurance as of the 3rd quarter of 2016. The Insurance Commission expects the same to rise to 48.7% by 2022. A success story of a Philippines based insurance company is presented in **Box 3**.

Box 3: CARD Pioneer: Offering Insurance Solutions to the Low-income Households

CARD Pioneer Microinsurance Inc. (CPMI) was formed in 2013 from the merger of CARD and Pioneer, two organizations working in the fields of microfinance and insurance respectively, to offer microinsurance products to economically and socially challenged Filipino families. CARD is the largest microfinance institution of the Philippines, while Pioneer is a successful commercial insurance provider. CPMI is the first non-life microinsurance company in the Philippines.

Both CARD and Pioneer realized the need for an effective solution of insurance for the low-income market segment. Using its network of microfinance borrowers, it introduced a Pioneer-designed microinsurance policy that included personal accident, burial assistance, flood and fire coverage.

CPMI realized that the low-income households need tailor-made insurance solutions rather than scaled-down versions of commercial insurance. In an effort to get better insight of the need of the low-income households, Card Pioneer management asked every staff of the organization to conduct “immersion visits” with clients for 3-5 days every year. Findings of these immersion visits helped Card Pioneer to reengineer its products and processes. General feedback from clients was that they were not happy with the claim turnaround time. Though CPMI was paying the claim to its partner in 5 days, they found that partner took 3 months to settle the claim. CPMI worked with their partners to reduce the turnaround time to 10 days from the event to payment.

Due to this focus on swift claim settlement and customer centricity, CPMI was able to issue 18 million policies in 2016 compared to 27,000 policies in 2009. The dramatic increase can be attributed to many factors, but strong partnerships with organizations such as rural banks, cooperatives, and microfinance institutions provide strong impetus. Partnership with those financial service providers allowed CPMI to leverage their network. In addition, CPMI also appointed centre chiefs of CARD as an agent to distribute microinsurance products, which helped to reach a large number of clients. That claims are received quickly through a simple process makes for great word-of-mouth that spreads the good news of microinsurance through communities.

Ghana: Ghana is another country where microinsurance has covered a large segment of low-income households. According to a study conducted by GIZ & Microinsurance Centre in 2015, a total of 7.5 million lives were covered as of 2014, which is 28% of the total population. There has been notable growth in terms of coverage of microinsurance from 2012 to 2014. A total of 7% population had some form of microinsurance coverage in 2012, which increased to 28% in 2014. Mobile distribution channels contribute 58% of the total policies sold in Ghana. MFIs and sales agents are also used to distribute microinsurance products. Through partnerships with MNOs, life and credit life insurance products are the most sought-after insurance products by low-income households followed by property and hospitalization.

2.1 Cross country comparison of microinsurance regulation

Sakhyam has conducted a cross-country comparison of microinsurance regulations of four countries.



Based on secondary information, the comparison of regulations on different parameters such as products, agents, claim settlement, etc. has been made and presented in **Figure 1** of this report. Overall, microinsurance regulations of Nepal are seen as progressive and conducive when compared to the countries that were studied.

Country/Indicator	Nepal	India	Cambodia	Ghana
Reference directive/circular	Microinsurance Directive 2014	IRDA Microinsurance Regulations, 2015	Circular on Issuance of Temporary License of MI 2011	Market Conduct (Microinsurance) Rules, 2013
Product	Family MI, Health MI, Personal accident MI, Livestock, Crop, Term life MI, and Endowment MI are prescribed by the regulator.	Dwelling and contents or livestock or tools or crop insurance against all perils Health insurance (Individual) Health insurance (group) Personal accident (Individual, family, group).	Micro General Insurance, Micro Life Insurance, Community based Health insurance.	Insurance company shall develop appropriate MI products and take approval from the regulator.
Agents	a) Non-Government Organisation (NGO) b) Self-Help Group c) Microfinance Institution d) Other group based on community	a) Non-Government Organisation b) Self-Help Group c) Microfinance Institution d) RBI regulated NBFC- MFIs e) District Cooperative & Urban co-operative banks f) Primary agro cooperative societies/other coops g) Business correspondents appointed by commercial bank	No provision	No provision
Claim settlement	Within 10 days of submission of required documents.	No provision in directive	Within 30 days.	Within 10 days.
Tie up between life and non-life product	No provision.	Life and non-life can bundle insurance products.	No provision	No provision.
Capacity building of agent	No provision.	At least 25 hours of training for MI agents.	No provision	No provision
Commission	Life Insurance- According to Beema Samiti's directives General Insurance; 15% of the premium	Life Insurance Single premium – 10% Non-single premium – 20% General Insurance: 15% of the premium	No provision	No provision
Provision of dedicated MI company	No provision	No provision	Yes	No provision

Figure 1: Cross-country comparison of microinsurance regulation

3. Overview of Microinsurance in Nepal

3.1 Insurance Industry Overview

Insurance is a relatively new sector in Nepal. The first insurance company of Nepal Insurance and Transport Company Ltd. was established in 2004 BS (1947 AD) as a subsidiary company of Nepal Bank Ltd. It was the only national insurance entity until the establishment of Beema Sansthan in 1968 AD. This was a major step for the Nepalese insurance industry, as previously, insurance was only offered through an unregulated branch of an Indian insurance company.

After the restoration of democracy in 1990, and following the introduction of financial sector reforms and liberalisation of the economy, local private players as well as foreign investors have entered into the Nepalese insurance industry. The number of insurance companies began increasing after the enactment of the Insurance Act in 2049 BS (1992 AD). A total of 36 insurance companies— including a re-insurance company—are now present in Nepal: 17 non-life insurance companies and 18 life insurance companies, including the recently licensed nine additional life insurance companies. An additional three non-life insurance companies are also in the process of receiving a license. The segregation of insurance companies in terms of ownership and types of business is given in **Figure 2**.

Ownership	General	Life	Total
Government	1	1	2
Private Sector	13	14	27
Foreign	2	1	3
Joint Venture	1	2	3
Reinsurance Company			1
Total	17	18	36

Figure 2: Number of licensed insurance companies

Penetration of insurance measured in terms of contribution of insurance as a percentage of GDP has been insignificant at 1.76%, though it is in increasing trend. Contribution of premium as a percentage of GDP is shown in **Figure 3**.

Fiscal Year (FY)	Premium (NPR in million)	Premium as % of GDP
2014/15	3732.84	1.76
2013/14	3043.13	1.55

Figure 3: Contribution of Insurance premium in GDP

3.2 Efforts to advance microinsurance

Microinsurance in Nepal is still in a fledgling stage. Insurance companies were previously offering low-premium coverage to cater to the needs of low-income households; but it was not called microinsurance. Only recently have formal insurance companies started to offer and label such products as microinsurance. Other organizations, including MFIs and NGOs, were also offering informal insurance products for low-income households.

3.2.1 Role of Regulator

Beema Samiti, the regulator of the insurance industry in Nepal, introduced directives to regulate, assist and support insurance companies to design and offer agriculture insurance in Nepal. Later in 2014, Beema Samiti introduced another directive on microinsurance that paved the way for introducing a range of insurance products targeted at low-income households. Beema Samiti has prescribed seven microinsurance products in the Microinsurance Directive 2014 and invited insurance companies to design innovative products to meet the clients' insurance needs. A list of microinsurance products prescribed by the directive is provided in **Figure 4**.

S. No.	Microinsurance Product	Maximum Sum Insured	Premium Rate
1.	Household Microinsurance	200,000	0.25%
2.	Health Microinsurance (Per family of 5 members)	35,000	4%
3.	Micro personal accident Insurance	150,000	0.1%
4.	Cattle & Bird Microinsurance	150,000	5%
5.	Crop Microinsurance	50,000 (Input cost)	5%
6.	Micro Term Life Insurance	150,000	As per age
7.	Micro Endowment Life Insurance	150,000	As per age

Figure 4: List of microinsurance products prescribed by Beema Samiti

The Government of Nepal (GoN) announced in the FY 2016/17 budget that an insurance company's portfolio on the basis of premium should be comprised of at least 5% from microinsurance. This announcement has further encouraged insurance companies to aggressively promote microinsurance products.

3.2.2 Role of Insurance Companies and other Stakeholders

Formal and informal insurance providers are currently offering different insurance products to low-income households to fulfil their insurance needs from their level. These are detailed below:

3.2.2.1 Insurance Companies

Though the Microinsurance Directive was introduced in 2014, insurance companies have only recently started selling microinsurance policies. Only microinsurance products prescribed by Beema Samiti as included in **Figure 3** are reported under this microinsurance category. Agriculture and livestock insurance are also not reported in the list of microinsurance products as Beema Samiti is reviewing the proposed the basis for segregating agriculture insurance products that can be considered microinsurance.

However, while they may not officially fall under the microinsurance category, insurance companies are offering products targeted at low-income households. These include credit life protection, endowment insurance, and agriculture insurance targeted to low-income households detailed below. Some insurance companies are in the process of registering these products under microinsurance by modifying the insurance products to meet the criteria.

Credit Life Protection: A few insurance companies are offering credit insurance to MFIs whereby the loan amount of the clients (borrowers) are protected in case of death of the loan client or his/her spouse. In the case of death, the outstanding loan amount of the borrower will be paid to the lending institution (usually the MFI). In some products, the amount already paid back to the MFI is given to the family of the loan client. This product, however, is not yet classified as a microinsurance product. Insurance companies are in the process of revising the product to align with the regulator's requirement to fall under this microinsurance category.



Endowment Products: A few life insurance companies have partnered with MFIs/Cooperatives to issue long-term savings plus insurance or endowment insurance. An endowment policy is a life insurance contract designed to pay a lump sum after a specific term or upon death in exchange for a regular premium payment. For example, Nepal Life Insurance Company (NLIC) made an arrangement to distribute microinsurance products to clients of a few microfinance institutions to offer life endowment products to the clients of MFIs. Positive Planet, a French INGO, helped establish this partnership and supported the initial preparation.

Life Insurance Company (LIC) has partnered with Sahara Nepal Saving and Credit Cooperative Society Ltd. (Sahara) to distribute a life endowment product to its members. Sahara is now working as a corporate agent of LIC Nepal to sell the endowment products to their members. The LIC-Sahara partnership began in 2011, and Sahara has sold more than 8,000 policies to date. While the sum insured of sold policies ranges from NPR 50,000-1,000,000, most have a policy around NPR 100,000, which is an affordable amount for the low-income households.

Agriculture Insurance: Agriculture contributes to 28.9% of Nepal's GDP and is a source of livelihoods for more than two-thirds of Nepal's population. Farmers face various risks including natural disasters, lack of irrigation, and lack of know-how which has made agriculture more labour intensive and less profitable. Offering agriculture insurance is a must to transform subsistence agriculture into commercialized agriculture.

Beema Samiti introduced the directive on Crop and Livestock in January 2013 to encourage insurance companies to develop and issue agriculture insurance products. After the issuance of the directive, non-life insurance companies have begun selling agriculture insurance. NLG Insurance Co. Ltd. had previously started offering livestock insurance. Prior to that, the Deposit & Credit Guarantee Fund, a government-owned entity to offer insurance for deposits and loans, also offered livestock insurance tied up with a loan. Agriculture development banks and a few other NGOs/Cooperatives were also offering informal/ insurance to insure livestock.

Crop and livestock insurance are included in the list of microinsurance products that can be offered by insurance companies. Insurance companies have started taking the initiative to offer beyond what Beema Samiti has prescribed in the directive. Shikhar Insurance, for example, introduced the Weather Index Insurance (WII), with the technical and financial support of Sakchyam for the first time in Nepal. Detail of WII is included in **Box 4**.

Box 4: Weather Index Insurance for Apples

Shikhar Insurance Company Ltd. introduced weather index insurance (WII) for the first time in Nepal for the apple farmers of Jumla and other apple producing districts, with the help of Sakchyam. Analysis of historical weather and the production data of apple were used to develop WII product. In addition, apple farmers and other stakeholders were also interviewed to assess and verify the weather risk they face. Shikhar is also in the process of developing WII for other commodities. WII will help overcome the ever-growing weather-related risks. Easy and quick claim settlement is also expected

The GoN provides a 75% subsidy to encourage the uptake of agriculture insurance. Beema Samiti and the GoN have started an awareness programme on agriculture insurance. Beema Samiti has assigned particular districts to each non-life insurance company to promote agriculture insurance and extend their presence throughout Nepal. Through the lottery system, each non-life company was assigned 3-5 districts to open dedicated branch offices. As a result, non-life insurance companies have reached almost all districts and agriculture insurance is increasing. A graph of the premium volume and claim amount in agriculture insurance is shown in **Figure 5**.

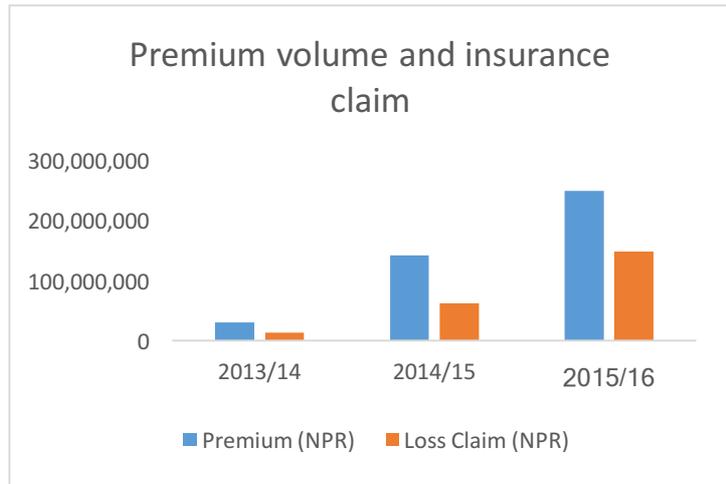


Figure 5: Premium volume and insurance claim amount of agriculture insurance

3.2.2.2 Nepal Insurers' Association

Sakhyam has facilitated the establishment of insurance pool of non-life insurance companies and partners within the microfinance industries to widen the distribution of microinsurance products. This was achieved by initiating a discussion among stakeholders of insurance to expand insurance to the low-income households by reducing distribution cost and increasing insurance awareness. After several discussions, associations of insurance and microfinance industries represented by Nepal Insurers' Association (NIA) and Nepal Microfinance Banker's Association (NMBA) agreed to distribute insurance products via microfinance institutions (MFIs). NIA and NMBA signed in a Memorandum of Understanding (MoU) to distribute microinsurance products to MFI clients. This is the first time that the partnership between these associations was established to expand the reach of microinsurance to the low-income households. This partnership is expected to help expand outreach of formal microinsurance products to the low-income households.

NIA has formed a pool of all 17 non-life insurance companies working in Nepal. Prudential Insurance Company Ltd. has been appointed the pool manager of this partnership. A management team at NIA and the pool manager will coordinate with MFIs and other insurance companies to market and distribute insurance products. The modality of the partnership is shown in **Figure 6**. NIA will offer a range of microinsurance and agriculture insurance products via this partnership and will develop tailor-made microinsurance products as per the need of MFI clients which are as follows:

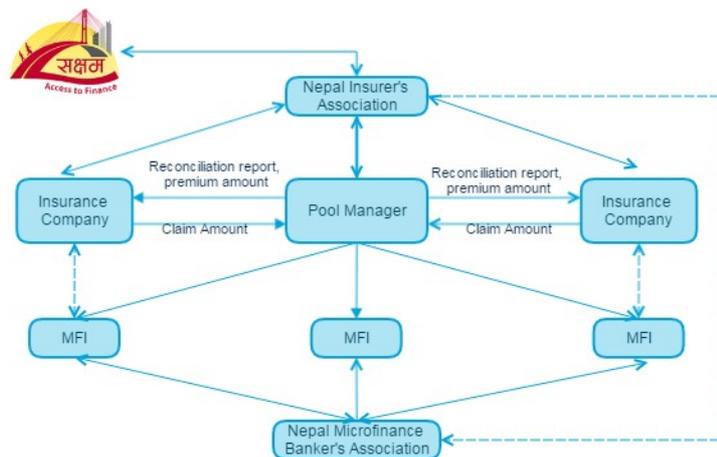


Figure 6: Modality of Partnership of NIA and NMBA

- Micro household Insurance
- Micro-enterprises insurance
- Micro personal accident insurance
- Health microinsurance
- Critical Illness
- Livestock insurance
- Crop insurance

The pool manager insurance company will provide agency license to interested MFIs who will be authorised to issue policies from the MFI office. MFIs will help policyholders fill necessary information in the proposal form and enter the necessary data in the NIA software. MFIs will hand over the policy documents to clients

and credit the premium amount to the accounts of the pool manager. The process is displayed in **Figure 7 (right)**. MFIs will also coordinate with insured clients and the NIA to register claims.

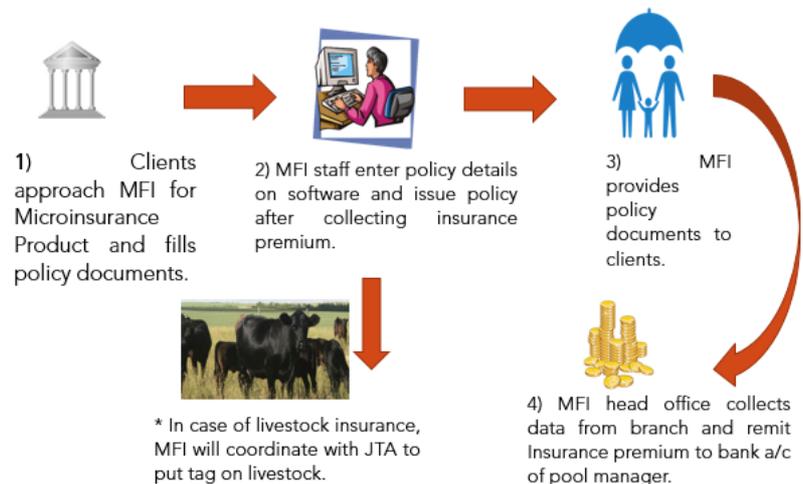


Figure 7: Process of issuing insurance policy

Sakhyam provided financial and technical support to NIA to materialize this partnership and to expand the reach of insurance in rural areas and among low-income households. Sakhyam coordinated with NIA, NMBA and the Beema Samiti and organized several discussions to materialize this partnership. As a part of Sakhyam Challenge Fund, Sakhyam is also supporting 50% of the total costs for first three years of operation. The project is expected to reach more than 400,000 beneficiaries within three years. The massive awareness campaign planning to launch by NIA will increase the level of awareness. NIA has started selling insurance policies in partnership with MFIs from November 1, 2017.

3.2.2.3 Other Stakeholders

Different community-based organizations (CBOs) are still offering various insurance products to meet the insurance needs of low-income households. They are however, not using the word insurance to describe the product, as approval from the insurance regulator would be required to do so. Various informal insurance products offered by different organizations are listed below:

Client Protection Fund: Some of the MFIs are offering informal insurance products to support their clients in case of an emergency. MFIs collect a certain amount from their clients in the name of client protection fund/social welfare fund and provide compensation when their clients face a certain pre-specified risk. This usually includes maternity benefits, loss of homes, death of breadwinner of the family and hospitalization due to major diseases, etc. Some cooperatives also raise a certain amount of money to help their members in the case of death of their members and their family members. However, the amount of premium collected is very small and provides minimal coverage. Since these arrangements



are not reinsured, there is an institutional risk whereby the organization could be unable to honor the claims.

Cooperative Member's Security Policy: The Nepal Federation of Saving and Credit Cooperative Union (NEFSCUN) started offering the Cooperative Member's Security Policy (CMSP) in 2008 in order to offer a long-term savings and insurance product to the members of their member cooperatives. NEFSCUN has received approval from the Department of Cooperatives to run this programme. It is being promoted as a complementary service to traditional savings and credit services. This is similar to an endowment insurance product which provides a sum insured in case of natural or accidental death or at the time of maturity. NEFSCUN has been receiving technical assistance from Agriterra, a Netherland based organization, and Microinsurance Association of the Netherlands (MIAN) to develop and implement this product. NEFSCUN's member cooperatives act as an agent to sell the policy prepared by the organisation. The amount of the value of the policy ranges from NPR 10,000-100,000. As of March 2017, 49 cooperatives have sold more than 2,500 policies. NEFSCUN has already collected more than 25 million NPR in premiums from sold policies.

Community Based Health Insurance: Save the Children with technical support from the Microinsurance Academy, an India based non-profit organization, Nirdhan NGO and Deprosc Nepal started piloting a Community-Based Micro Health Insurance (CBMHI) product in the Banke and Dhading Districts of Nepal in 2011. With actuarial support, a discipline which applies mathematical and statistical models to assess risk in insurance, they designed different packages of health insurance to allow the community to choose appropriate health insurance packages. Insured members can visit a range of hospitals listed by the coordination committee. Claim committees formed by the representatives of group will assist in claim settlement. Deprosc Nepal is implementing a CBMHI named Saubhagya in Dhading while Nirdhan NGO is implementing Sanjeevani in Banke. Currently, there are 12,581 members enrolled in Sanjeevani while 4,372 in Saubhagya as of March 2017.

3.2.2.4 Government Run Social Security/Insurance Programme

Social Protection in Nepal: Social Protection in Nepal is a relatively new phenomenon. In 1994, Nepal started a cash transfer programme for senior citizens above the age of 75, widows above 60, and people with disabilities. Different governments since then have tried to launch different social security schemes. Social security schemes in Nepal are administered by Department of Civil Registration (DoCR) under Ministry of Federal Affairs and Local Development (MoFALD). DoCR is now implementing 11 different cash transfers programmes to different groups of people. Senior citizens, single women, and those from marginalized communities are entitled to receive benefits from such social security schemes. In addition, various in-kind transfers, social insurance, skill training, and livelihood programmes are also implemented by different government agencies with other stakeholders.

Beneficiaries receive cash every four months from the local government authority. In some cases, banks have been used to disburse social security payments while in other cases, a local government authority directly disburses cash. The GoN is also planning to introduce identity cards to poor households in 25 districts. Identification of poor households and distribution of identity cards is expected to bring dedicated social security system to the poor.



Health Insurance run by Government: The GoN introduced health insurance targeting low-income households in April 2016. The Social Health Security Development Committee (SHSDC) under the Ministry of Health has been managing this insurance scheme. It started with three districts in the first fiscal year and has since then expanded to eight districts.

The cost of premium is 2,500 NPR per year for a family of five with an additional 425 NPR for each additional member. The total sum insured is 50,000 NPR with an additional 10,000 NPR for each additional family member. The insured person also receives benefits of Out Patient Department (OPD), operations, medicine and lab tests. The GoN also provides a subsidy on the premium: the ultra-poor receive a 100% subsidy while the poor and marginalized people receive 75% and 50% subsidy, respectively. The subsidy is based on the classification done by GoN using identity cards distributed to the poor households.

A total of 255,215 people have enrolled in the health insurance scheme as of November 3, 2017 from the 18 priority districts. The government plans to gradually cover the remaining districts with health insurance over the next three years. So far, the health insurance is voluntary, but the government is planning to make this mandatory for some sections of the population- starting from government employees and migrant workers - to minimize adverse selection.

4. Demand of Microinsurance in Nepal

Sakchyam conducted a brief survey to understand the risks faced by low-income households and the coping mechanisms used to deal with the risks.

4.1 Demography of respondents

A total of 303 respondents representing MFI clients and non-MFI respondents participated in the survey. Among them, 153 were MFI clients while remaining 150 were not a member of any MFI. The respondents were asked various questions about the risks they face in their daily lives and their coping mechanisms.

4.2 Risk faced in daily lives, preparation and impact

Respondents were asked if and what risks they had faced in the past two years. A total of 66% of the respondents shared that they or their family members had faced at least one major risk in the past two years. A total of 27% respondents shared that the major challenge they or their family members faced was a health problem followed by death of livestock, natural disaster, decrease in agriculture production, death of family member, problem in livestock and other risks. A graph of the risk faced by respondents is shown in Figure 8.

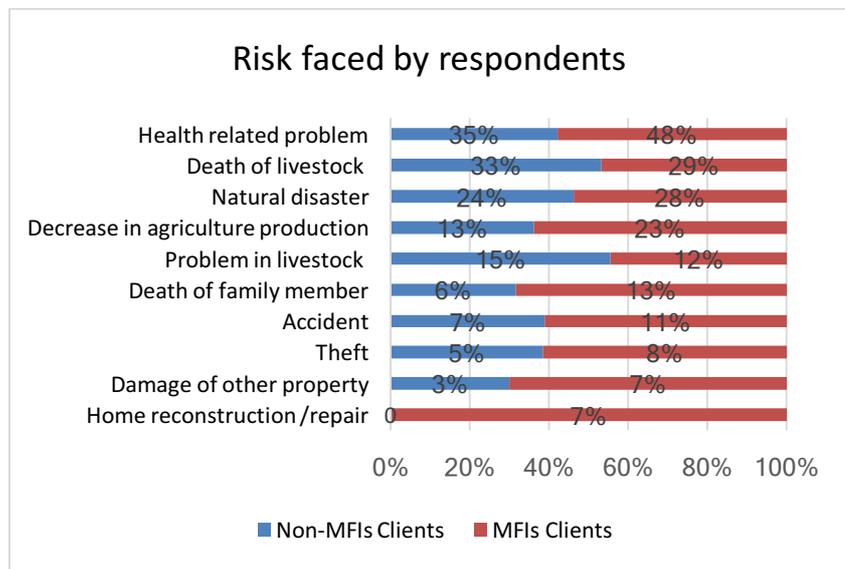


Figure 8: Risks faced by survey respondents

Respondents were also asked if they were financially prepared for such events. In response, 61% said they were not prepared for such events. Of these, most had prepared by saving at home followed by savings at a financial institution. A clear difference can be seen between MFIs respondents versus non-MFIs respondents about where they save money for future risk events. Only 10% of non-MFI respondents said that they saved at a financial institution whereas 49% of the MFI-respondents said that they saved at a financial institution. Similarly, 88% of non-MFIs respondents saved at home to prepare for future risks while only 45% MFIs respondents save at home. Responses of survey participants on preparation of possible risk events are shown in Figure 9.

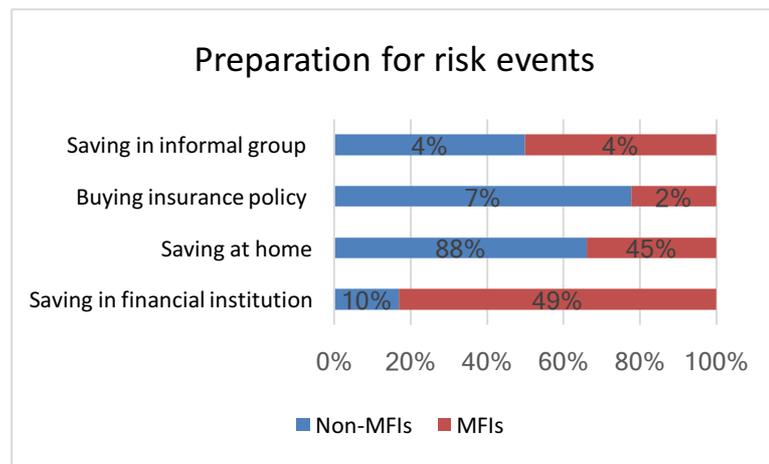


Figure 9: Preparation of possible risk events



Respondents were also asked about the expenses incurred to cover risk events. The responses show that the cost ranged from NPR 20,000-800,000. A total of 22% of respondents shared that their expenditure was less than NPR 20,000 followed by 18% people having spent NPR 20,000-40,000. Of those who reported having expenditures of more than NPR 100,000, all had health-related problems among their family members. Expenditures of the survey participants in case of risk event is shown in **Figure 10**.

Figure 10: Expenditure of the risk faced by the survey respondents

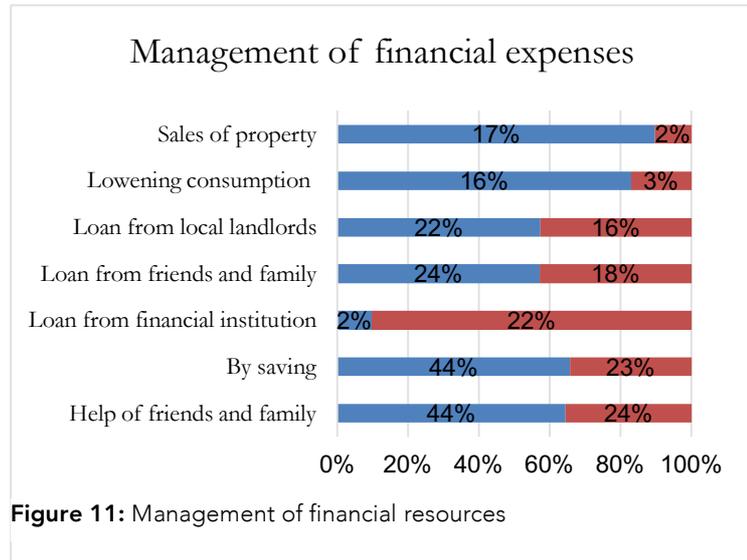


Figure 11: Management of financial resources

Respondents were also asked how they covered these expenses. A total of 34% respondents said that they received help from friends and family closely followed by the use of savings (33%) and loans from friends and families (22%). Some respondents also shared that they took loans from financial institutions and local landlords (money lenders). The tendency to take loans from financial institutions was higher among MFI-respondents compared to non-MFI respondents, as they have easier access. In extreme cases, a few respondents had to reduce their consumption of food and other essentials and/or sell their property. They also received money from their family members working in foreign countries. None of the respondents said they used compensation from an insurance claim to offset the cost. This corresponds with the lack of uptake of insurance products to prepare for such events. The responses of survey participants on how they manage financial resources are shown in **Figure 11**.

4.3 Understanding of Insurance

Respondents were asked if they had purchased any form of insurance. A total of 34% of the respondents reported that they had purchased at least one insurance policy. If breakdown of this proportion is compared between MFI & non-MFI respondents, there is a significant difference. A total of 44% of MFIs respondents had purchased at least one insurance policy while only 24% of non-MFIs had purchased at least one insurance policy. (A breakdown of respondents buying insurance policies is shown in **Figure 12**). A higher rate of insurance penetration among MFI respondents is primarily due to the fact that MFIs provide a mandatory credit life protection when they take out a loan. This mandatory insurance is offered by a few MFIs and only loan clients have to take this product. There was also a significant number of life insurance policy holders (27%). A total of 21% of non-MFI respondents have purchased a life insurance policy followed by loan insurance by 3% of the respondents.

Life insurance in some cases is provided by MFIs in partnership with formal insurance companies, increasing the number of life insurance policies sold.

Of those who haven't purchased an insurance policy, 60% respondents cited a lack of awareness as the major reason closely followed by a lack capacity to pay the premium (51%). Lack of awareness is higher among non-MFI respondents (72%) compared to MFI respondents (48%). In addition, 29% respondents shared that a lack of trust is another reason for not purchasing insurance followed by a lack of need identification for insurance, and unavailability of insurance company/agent as reasons for not purchasing insurance. Response of survey participants is shown in **Figure 13**.

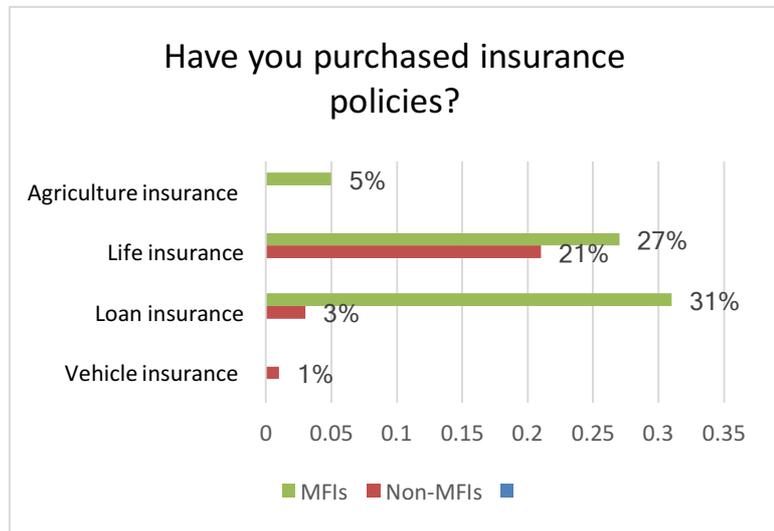


Figure 12: Familiarity with insurance

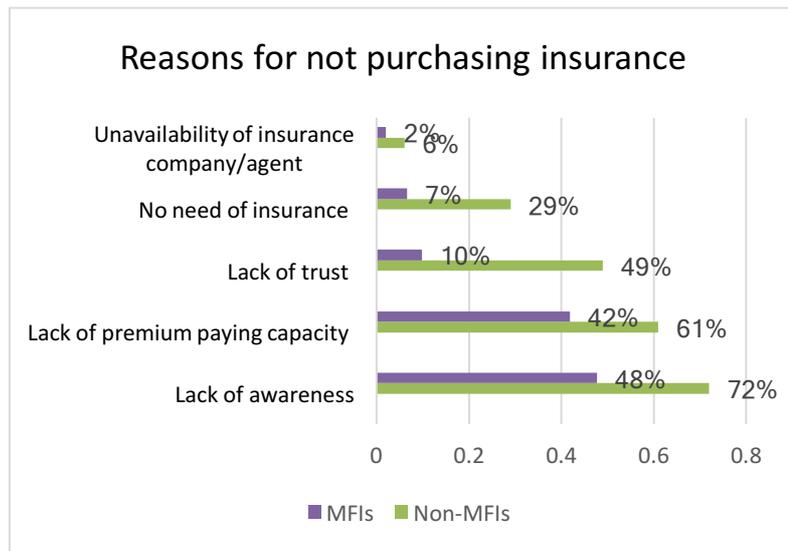


Figure 13: Reasons for not purchasing insurance

5. Challenge of Microinsurance and the Way Forward

5.1 Challenges of Microinsurance

Some of the major challenges in rolling out microinsurance based on our survey and discussions with stakeholders are mentioned in this section.

- **Lack of Cost Efficient Distribution Channels**

Microinsurance is a small ticket insurance product which needs to be sold at a large scale to make it cost efficient as well as sustainable. Selling such products directly via insurance companies may not make this possible as insurance companies are largely limited to urban areas, and their agents can only physically reach only a certain number of potential clients. The use of cost efficient and innovative distribution channels not only reduce the distribution cost but also allow them to reach a larger number of clients and different segments of clients.

- **Lack of Awareness**

Lack of awareness of insurance is considered one of the major obstacles in expanding the reach of microinsurance. Low-income and less-educated segments of the population struggle to understand the concept of different insurance products which contributes to low uptake.

- **Supply-driven market**

Products offered by insurance companies to low-income clients are largely downscaled versions of regular insurance products designed to meet the insurance needs of an urban population. Beema Samiti has prescribed a few products as microinsurance, but the insurance companies haven't developed other microinsurance products to meet the needs of low-income clients.

- **Lack of Human Resources and Technical Know-How at Insurance Companies**

Lack of human resources and technical know-how of Insurance Company and Regulator has also been observed as a barrier to advancing microinsurance in Nepal. Insurance companies are struggling to find appropriate human resources to better understand and respond to the microinsurance market.

- **Lack of Adequate Auxiliary Services**

Auxiliary infrastructure needed in rural areas to expand microinsurance is not readily available in those locations. Lack of health service providers, agriculture technicians, weather stations, etc. are cited as hurdles to scale up microinsurance on a cost-effective basis. Availability of such infrastructure in rural areas will help in the expansion of insurance companies.

- **Lack of Trust**

The general perception of insurance is not that strong. People cite perceived difficulties in receiving claims and fraud and embezzlement by insurance agents/companies. Fraudulent activities related to insurance by unregulated players in the past have also contributed to the lack of trust in insurance.



5.2 The Way Forward

In order to advance microinsurance in Nepal, different stakeholders need to work together and make products accessible to low-income and rural households. Some of the actions to be taken to promote microinsurance are as follows:

- **Synchronization of Microinsurance Definition**

It seems that the insurance companies are offering different insurance products to low-income households, but they are not formally defined as microinsurance products. Similarly, there is confusion about why certain agriculture insurance products do not fall under the microinsurance category, even though they fulfil the requirements. Beema Samiti and the insurance industry should collectively review the same and help expedite the approval process. In addition, Beema Samiti should also explore the pros and cons of revising maximum sum assured of microinsurance products. Stakeholders of insurance have raised that existing sum assured of microinsurance products might not be enough to cover the financial loss of lives and property of the low-income households.

- **Formalization of Informal Insurance Products**

Though the number is decreasing, efforts should be made towards formalizing informal microinsurance products currently being offered by community-based organizations and MFIs. Bringing them under the purview of the insurance sector will reduce risks for institutions and clients.

- **Making Insurance Affordable to Low-Income households**

Insurance should be made affordable to low-income households to allow them access to purchase insurance. Using innovative and cost-efficient distribution channels can help lower the costs to the suppliers and ease access to clients.

Providing subsidies for agriculture insurance has been instrumental to scale up agriculture insurance in Nepal which can be implemented in case of microinsurance. A poor family identified by the GoN can be taken as a basis to allot subsidies. Subsidies can continue to be used to help attract low-income households and increase the understanding of the importance of insurance. Subsidies, however, should be gradually reduced to make microinsurance sustainable.

- **Collaboration with Different Government Entities to Develop Infrastructure and Deplete Required Human Resources**

As discussed above, insurance companies have faced difficulty in selling microinsurance products because of lack of support services. Regulators and stakeholders need to collaborate with the responsible government agencies for establishing or expanding the required infrastructure. For example, increasing the number of weather stations would help expand the use of a recently developed weather index insurance product.

- **Promotion of new and innovative distribution channels such as MNOs, MFIs**

Using new and innovative distribution channels which have a larger reach to the low-income market segment will help expand microinsurance to the needy population. Use of mobile technology as a distribution channel has helped insure millions of people in different developing and under-developed countries. Similarly, MFIs/Cooperatives and other organizations having direct reach to low-income



market segments is also used to distribute microinsurance. In Nepal as well, innovative distribution channels need to be promoted. An example of innovation Sakcham is supporting is Bima, a TSP offering mobile microinsurance products in different regions to introduce mobile microinsurance products for the first time in Nepal.

- **Redemption of VAT and Stamp Duty**

Insurers have to pay VAT and stamp duties on micro insurance that will increase the cost as well as difficulty in issuing insurance policy via agent. The GoN has removed VAT to the policyholder of agriculture insurance to increase uptake. Redemption of VAT and stamp duty will also help increase demand of microinsurance.

- **Appropriate Product Designs**

Appropriate product designs based on the needs of the low-income market segment will help insurance companies expand their market. In different countries, microinsurance products have been bundled with other financial and non-financial products to increase uptake of insurance. Insurance companies should explore different alternatives and develop appropriate products to address clients' needs. Demand-driven processes to develop new products will help increase uptake of insurance.

- **Increase Coordination**

A few development agencies are working in promoting microinsurance within the greater insurance sector, but it is somewhat fragmented. A joint effort of different development agencies and the insurance industry should be put together to increase awareness of insurance.

- **Develop the Pool of Human Resources**

Developing a pool of human resources with adequate knowledge on microinsurance can help the industry grow faster. Beema Samiti and insurance companies should invest in developing the human resources required on microinsurance. Academicians involved in promoting insurance education should be encouraged. Establishing a training academy to train insurance staff and agents can help develop adequate human resources for the sector.

- **Use of a Pooling Concept to Develop the Market**

Insurance companies have been reluctant to aggressively promote microinsurance through individual efforts. The formation of a pool to co-share risks and benefits of an untested market and running massive awareness campaigns will help increase market penetration. Once the market matures and insurance companies see the market opportunity, individual companies can continue with the expansion. Utilization of the pool concept jointly initiated by NIA and Sakcham should be done to advance microinsurance.



Bibliography:

Beema Samiti (2016). Existing Insurance Scenario, Beema Samiti, Lalitpur

Churchill, C., ed. (2006). *Protecting the Poor: A Microinsurance Compendium*. Geneva: International Labour Office

CGAP (2017). Case Study of Card Pioneer

Department of Social Health Security (2016) *Annual Report of 2072/73*, Department of Social Health Security, Ministry of Health, Government of Nepal, Lalitpur

Economic Survey 2073/74 (2017), Ministry of Finance

Directive on Crop and Cattle (2013), Beema Samiti

Directive on Microinsurance (2014), Beema Samiti

Ghimire, R. and Kumar, P. (2011). *Agriculture Insurance in Nepal*

International Labour Office (n.d). An Inventory of Microinsurance Scheme in Nepal, International Labour Organization, Kathmandu

International Labour Organization (2017). Case Brief: Pioneer Microinsurance, Geneva Switzerland

Life and non-life insurance penetration in selected countries worldwide in 2014 (n.d.). Retrieved from <https://www.statista.com/statistics/381174/insurance-penetration-in-selected-countries-worldwide/>

Khanal, Dilli Raj, 2012. *Social Security/Social Protection in Nepal/Situation Analysis*. Kathmandu: ILO Country Office for Nepal

Ministry of Finance (2016) *Economic Survey 2072/73*, Ministry of Finance, Government of Nepal, Kathmandu

National Insurance Commission (2015) *Landscape of Microinsurance in Ghana 2015*, Accra, Ghana

National Planning Commission (2012) *Assessment of Social Security Allowance Program in Nepal*, National Planning Commission, Government of Nepal, Kathmandu

Portula, D. and Vergara, R (2013) *The Philippines Experience on Microinsurance Market Development*, GIZ

World Bank (2008). *Agriculture Insurance Feasibility Study in Nepal 2008*

World Insurance Market Place. (n.d). Retrieved from <http://www.iii.org/publications/insurance-handbook/economic-and-financial-data/world-insurance-marketplace>



Annexes

Annex I: List of organizations/persons met

S. No.	Name	Organizations	Designations
1.	Mr. Kundan Sapkota	Beema Samiti	Deputy Director
2.	Mr. Rajendra Maharjan	Beema Samiti	Assistant Director
3.	Ms. Anju Pandey (Pant)	Nirdhan NGO	Executive Director
4.	Mr. Kailash Rijal	DEPROSC	Director
5.	Mr. Purna Prasad Poudel	DEPROSC	Manager
6.	Mr. Arun Basnet	Met Life	Asst. Manager
7.	Mr. Jitaram Gautam	Nirdhan	Regional Manager
8.	Mr. Gopal Bhattarai	Sahara SACCOs	Project Manager
9.	Mr. Ganesh Timilsina	NEFSCUN	Business Department Head
10.	Mr. Udit Kafle	Shikhar Insurance	Assistant General Manager
11.	Mr. Rebat Man Shrestha	NLG Insurance	Advisor, Livestock Insurance
12.	Dr. Rabnidra Ghimire	Pokhara University	Director

WWW.SAKCHYAM.COM.NP

info@sakchyam.com.np

House #267, Chundevi Marg, Maharajgunj, Kathmandu
Tel: 4721284 / 4721269 / 4721181