

## Factsheet microinsurance business model

### Nepal: Microinsurance Pool to increase client penetration and jointly manage the risks

#### Challenges

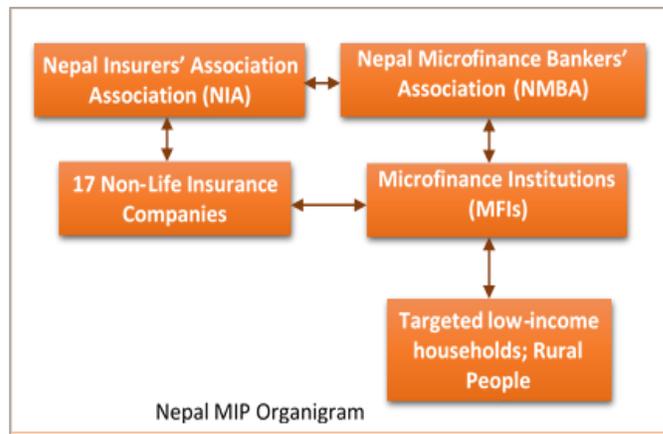
Nepal is a country where almost 80% of its 28 Million population lives in the rural areas. The country covers the Himalayan range as well as fertile plains having very low access by roads. Therefore, reaching the targeted group at remote locations is the most challenging task to increase access to insurance.

Microinsurance is relatively a new business in Nepal. It focuses in the rural areas wherein commercial insurers do not have reach due to geographical and other infrastructural constraints. Apart from logistics and networking constraints, trained manpower (i.e. JTAs and Veterinary doctors for verification at the time of assessment of sum insured and insurance claim) is a big challenge as most of the trained and technically literate manpower prefers to work in the urban areas.

#### Enabling policies and regulations

The microinsurance market is regulated by Beema Samiti (Insurance Board), which issued the "Micro Insurance Directive, 2071" in 2014. This Directive had **pre-approved** seven (7) standard microinsurance products with prescribed maximum premiums rates, sums assured, claim documents and commissions.

Other MI products not included in the Directive are allowed, but would need prior approval of Beema Samiti. In order to promote insurance for the low-income people, the Beema Samiti obliges all insurance companies to have at least **5% of their portfolio as microinsurance** effective on July 2016.



To ensure effective implementation of microinsurance, Nepal Government has addressed microinsurance development on its Fiscal Budget (2074/75) as Government's Priority. Up to 75% in premium subsidy for crop and livestock insurance are being provided. The other MI products have no subsidy since the beginning until to date.

#### Nepal Insurers' Association (NIA)

The NIA, an umbrella organization of insurance companies of Nepal has signed an agreement of Consortium that is called **Nepal Microinsurance Pool (MIP)**. At the moment, the Pool is only for MI non-life products. All the 17 General Insurance Companies are members of the MIP. The NIA has unanimously nominated the Prudential Insurance Company as a Pool Manager for the administration of policy distribution and claims handling. The Pool Manager company will be on a rotation basis among the MIP members, with a minimum term of 12 months.

#### The Nepal Microinsurance Pool (MIP)

Nepal insurance market has a success story on operation of a risk pool. Previously, the Nepal Terrorism Pool was functioning along with a seed money from all non-life insurance companies and



Photos by Dante Portula

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contribution from the Nepal Government. The seed money was converted to share capital and established the Nepal Reinsurance Co. Ltd. (Nepal Re) which is now managing the Terrorism Risk.

The MIP has a Memorandum of Understanding (MoU) with the Nepal Microfinance Banker's Association (NMBA). All 17 non-life companies have equal value of seed money to the pool.

Each of MIP members have its respective assigned districts so that all the 73 districts in the country shall be covered by the pool following the mandate of the Insurance Board.

The insurance companies shall work with the MFIs that are operating in its assigned districts. The NIA and NMBA shall organize trainings for the licensing of MFIs as MI agents. Using a partner-agent model, the insurer (partner) is responsible in conducting training of the MFI staff (agent) regarding the Standard Operating Procedures (SOPs) of microinsurance, including hosting of software to administer enrolment and claims procedures.

**400,000** households nationwide by end of FY 2017-2018 is the target outreach of MIP, 10% of 4M members of MFI banks

The role of MIP is to make feasible issuance of policy, administration and processing of claims, renewal of policies and mainstreaming of low income household in MI practices along with the training of agents and distribution channels.

NIA is enjoying financial support from the UK Aid through the Kathmandu-based Sakchyam NGO. Up to 50% of administration cost of the MIP will be subsidized by the UK Aid's 'Challenge Fund'.

## Products and Distribution

The MIP is carrying seven (7) standard MI products prescribed by the Insurance Board. By end of 2017-2018 fiscal year, the NIA and the NMBA target to reach 400,000 household nationwide, which is around ten percent (10%) of total 4 million microfinance members across the country.

#	Name of Microinsurance Product	Maximum Sum Insured(NPR)	Insurance Premium
1	Crop Insurance	150,000	5%
2	Livestock Insurance	150,000	5%
3	Micro-enterprises Insurance	200,000	0.30%
4	Critical Illness Insurance	150,000	0.50%
5	Accidental Insurance	150,000	0.10%
6	Health Insurance	35,000	4%
7	Household Insurance	200,000	0.25%

Renewable insurance policies will be sold by the MFIs via their branch networks and they will be paid up to 15% of the premium as commission and additional 10% as incentive. The rest of the premium income will be accounted to the pool manager's account as per MoU between NIA and NMBA.

The Nepal MIP has successfully organized various orientation programs among the stakeholders. It has conducted Agent Trainings to 85 MFIs across the country. The Insurance Board is in the process of issuing Agents License to the MFIs.

Beema Samiti's role in the MIP is to facilitate the program as a stakeholder for policy formation and for claiming procedure along with effective monitoring and evaluation as per directive policy of Beema Samiti.



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