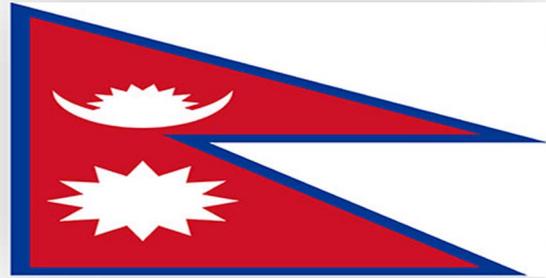


The Mutual Exchange Forum on Inclusive Insurance (MEFIN Network)

A peer network of insurance regulatory authorities in Asia

General background

Nepal was one of the six countries who signed the MEFIN Declaration of May 2013 (also known as Cebu Declaration) and signified support to the promotion of inclusive insurance as a strategy for poverty reduction in the region. In January 2016, Nepal renewed its commitment to the MEFIN Network which was then formalized as a regional platform for peer-to-peer exchange of knowledge and experiences in inclusive insurance.



Nepal

Insurance in Nepal

The insurance in Nepal does not have a long history. Modern insurance company began in 1947. The first insurance company was named as Maal Chalani ra Bima Company which was later renamed as Nepal insurance and Transport Company in 1959. It was the only national insurance entity until the establishment of Beema Sansthan in 1968, a governmental owned organization formed under decision of Government of Nepal, separate life insurance company. Following the restoration of democracy in 1990, the introduction of financial sector reforms and liberalisation of the economy, as well as the enactment of the Insurance Act 1992, local private players as well as foreign investors have entered into the Nepalese insurance industry. Currently, the insurance sector is comprised of 39 insurance companies, established under the Insurance Act, 1992, out of which 18 are life insurance, 20 are non-life and one is reinsurance. Insurance penetration by the end of 2018 is 2.5 per cent of GDP.

Country background

Nepal is a landlocked country located along the Himalayas and bordered to the north by China and to the south, east and west by India. It is separated from Bangladesh by the narrow Indian Siliguri Corridor and from Bhutan by the Indian state of Sikkim. The mountainous north of Nepal has eight of the world's ten tallest mountains, including the highest point on earth, the Mount Everest.

With an estimated population of 28.71 million, it has a density of 195 inhabitants per square kilometre. A largely rural country – over 80 per cent of the population is scattered in rural areas posing significant challenges in transportation, communication and service deliver –, Nepal is urbanizing rapidly. With a population of about 2.5 million people, the Kathmandu Valley is growing at 4 per cent per year, one of the fastest-growing metropolitan areas in South Asia, and the first region in Nepal to face the unprecedented challenges of rapid urbanization and modernization at a metropolitan scale. More than 2 million Nepali work abroad, although the numbers are likely higher as many workers migrate through unofficial channels. The migrant workforce contributes 30 per cent of the country's annual revenue in remittances.

Development

Nepal is a developing country and has been making steady progress with the government commitment to graduate the nation from this status by 2022. Nepal's Gini ratio, the coefficient that measures inequality among income distribution, lies at 32.8 and the HDI at 0.548.

While insurance and non-insurance companies in Nepal have been providing various products to low-income people on a small scale, microinsurance is still in its initial stage. Other organizations, including MFIs and NGOs, were also offering informal insurance products for low-income households. There are microinsurance-like schemes operating in the country, many of them unregulated. According to a 2013 market survey report 13 around 80 per cent of the MFIs (microfinance banks, coops, NGOs) have social protection funds (SPFs)¹⁴, including protection against death of the client or spouse, maternity and damages to house due to natural calamities; and some also cover predefined illnesses.

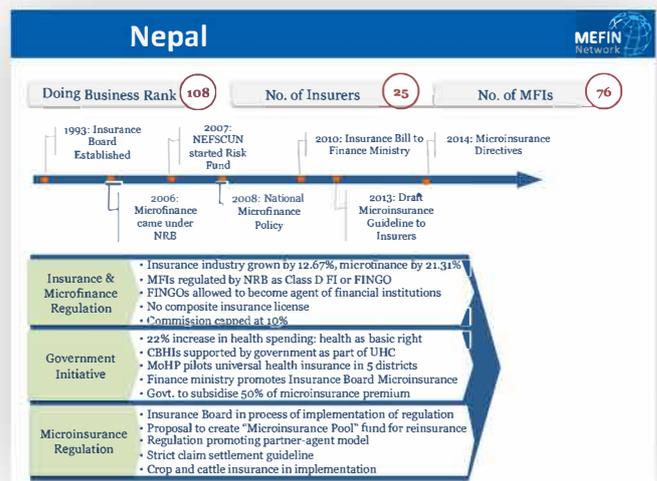
Insurance Market

By virtue of the Insurance Act of 1992, Beema Samiti (Insurance Board) was established as an autonomous body to develop, systematize, regularize and regulate the insurance business of Nepal under Insurance Act of 1992. As a regulatory body under the Finance Ministry, its main concern is to create a professional, healthy and developed insurance market in the country.

Following the order of the Ministry of Finance obliging all insurance companies a minimum 5 per cent of portfolio should be for microinsurance (July 2016) the Nepal Insurers Association (NIA) created a microinsurance risk-pool for non-life microinsurance products. 18 All 20 non-life companies are participating and contribute to the operating fund and share premium and claim equally.

Micro Insurance in Nepal

Most low-income people face a number of risks events like illnesses, accidents, disability, deaths and natural disasters. Due to the immediate and/or long-term financial stress such risks create, they push people to deplete savings, household or income generating assets and borrow from a variety of sources. These are all problematic coping mechanisms due to low-income people having fewer assets that can be sold to cover emergency spending, to diversify their sources of income or to offer as security for a loan. Microinsurance can play a role in providing social and financial protection against such losses by ensuring financial shock absorbercy of low-income households to both predictable and unpredictable risks and to maintain wellbeing. Specific microinsurance products that address specific life cycle or environmental risks can offer low-income people tools to control the negative effects of various risk events in their lives. This need is particularly acute in Nepal. Insurance has reached only around 10 percent of the population; microinsurance products need to be developed and bring into view to lower the risk of low-income people from unfortunate events, such as natural disasters (e.g. floods and landslides).



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