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STUDY ON COMMERCIALISATION OF MICROINSURANCE IN NEPAL

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ACKNOWLEDGEMENT

Despite that micro-insurance is one of the financial services required for the poor and disadvantaged groups for sustainable poverty reduction, in Nepal these schemes are implemented outside prevailing legal and regulatory framework and operated under different name such as relief scheme or protection scheme or welfare scheme in a subsistence or semi-commercial mode by different microfinance institutions (MFIs). Enhancing access to micro-insurance services to the poor and disadvantaged groups is a challenge in Nepal where state of institution development in at an infancy stage. In cognizance to this, International Network of Alternative Financial Institutions (INAFI) Nepal financed a research on commercialization of micro-insurance in Nepal and awarded a contract to Centre for Empowerment and Development (CED) Nepal to carry-out this assignment.

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Finally, we would like to affirm that any errors and omissions in this report are entirely ours and once again we would like to extend our sincere thanks to all of them for direct or indirect support we received during this research.



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ABSTRACT

This research assesses the current status of microinsurance operations and explores prospects and potentials for commercialization of Nepalese microinsurance sector. Microinsurance has been implemented in five different modalities: full service, community based, mutual aid, partner agent and providers model in the form of crop insurance, livestock insurance and health insurance in Nepal.

Insurance act and regulations should govern microinsurance operation in Nepal, but it is not happening. Most of microinsurance operation has been done outside the preview of insurance act and regulations. Microfinance policy 2063 includes microinsurance as one of the microfinance services and there is no separate policy and act to regulate, supervise and mainstream microinsurance operation in Nepal. Insurance Board has been working to down scale insurance operation for the poor and disadvantaged groups. Government and donors has shown increased interest and commitment to promote microinsurance in Nepal.

Findings of this research reveal that policy holders (clients) are satisfied with current micro-insurance services partly due to the absence of other choices and alternatives as well as these schemes are characterizes by their transparency and simplified operation including claim handling. There are specific reasons for low demand for insurance in spite of intense need due to limitation in operation. It has been found that pricing, including willingness to pay and availability of subsidies, influence insurance market. Difficulty in distribution is one of the most cited reasons for absence of rural insurance. High costs of penetrating rural markets, combined with underutilization of available distribution channels, hinder their growth. Contrasting perspectives of the insured and the insurers, lead to low customization of products and low demand for what is available.

Existing microinsurance schemes are cost effective, timely, with simplified operation and no additional burden to service providers which is linked with loans and part of service packages. These schemes minimize fraud, adverse selection and moral hazard with limited or no asymmetric information. The schemes are efficient to increases client consensus with existence of multiple service providers. These schemes however lack of market lead approach to product development; guided, top-down and lack of demand led approach; limited human capacity; lack of client education and no effort on product promotion, separate business and reinsurance with minimum risk spreading. These schemes have limited risk coverage and do not adequately address the issue related to vulnerability management of the poor and disadvantaged groups.

There exist potentials for commercialization of microinsurance operation through scale up and formalization. There is high interest of insurance service providers, and regulators to commercialize microinsurance operation and these schemes can be linked for addressing vulnerability mission of the government. Further, there exist possibilities for forging partnership between microfinance institutions and mainstream insurance companies. The nine life insurance companies of Nepal are quite keen to downscale their operation to bring poor and disadvantaged groups under the ambit of their service delivery. Challenges of existing schemes includes: mainstreaming with regulatory framework, business ownership, meeting

expectation of the clients, wrong mission and intension of financial institutions, reaching the poor and disadvantaged groups, integrated versus stand-alone services, and ensuring proper balance between savings and credit operation and extending insurance services. There are however barriers to commercialization and they are related to technical (pricing, risk assessment), operational (capacity, claim handing), institutional capacity and policy (no separate microinsurance policy). These barriers are applicable across all types of microinsurance modalities.

There is a need to commercialize microinsurance operation and there is no way that existing operation could continue for future and achieve sustainability. Government should bring microinsurance policy and related act/rules to augment commercialization process. Mutual aid model currently implemented National Federation for Savings and Credit Union Nepal (NEFSCUN) in partnership with selected Savings and Credit Cooperatives (SCCs) has limited potentials to expand while partner model is cost ineffective to expand the frontier in remote areas. Promotion of partner agent model of microinsurance has been recommended to ensure outreach, viability and impact.

On the basis of study findings and conclusions, the study recommends that the future work in Nepalese microinsurance sector should revolve around leveraging existing network for microinsurance, linking microcredit with microinsurance, implementing strategy for microinsurance on human resources requirement and training, operations and systems, development of adequate feedback mechanism, database and consumer education, marketing and grievance handling. Further, future work should focus on product development, process re-engineering, building database, using existing infrastructure and technology; and refinement and scale-up of specific insurance product such as crop insurance, livestock insurance and health insurance for improved ownership and sustained impact to address the vulnerability issues.

TABLE OF CONTENT

ACKNOWLEDGEMENT ..... **I**

ABSTRACT ..... **II**

LIST OF TABLES ..... **VI**

LIST OF FIGURES ..... **VI**

ACRONYMS AND ABBREVIATION ..... **VII**

1. INTRODUCTION **1**

1.1 BACKGROUND 1
1.2 STATEMENT OF PROBLEM 2
1.3 RATIONALE/JUSTIFICATION 3
1.4 OBJECTIVES 3
1.5 SCOPE 3
1.6 REPORT ORGANISATION 4

2. REVIEW OF LITERATURE **5**

2.1 RATIONALE FOR MICRO-INSURANCE 5
2.2 STATE OF THE ART ON MICRO-INSURANCE 6
2.2.1. Core Elements of Micro-insurance *6*
2.2.2. Level of Insurance Sector *7*
2.2.3. Microinsurance Supply Chain *8*
2.2.4. Delivery Models *9*
2.2.5. Business Models *9*
2.2.6. Comparison of Busienss Models *10*
2.3 OPPORTUNITIES AND CHALLENGES 11
2.3.1. Opportunities *11*
2.3.2. Challenges *13*
2.4 CAPACITY DEVELOPMENT NEED ASSESSMENT 14
2.5 SUSTAINABLE MICROINSURANCE OPERATION 15
2.6 MICROFINANCE AND ITS LINK TO MICRO-INSURANCE 15

3. RESEARCH METHODOLOGY **16**

3.1 OVERALL METHODOLOGY 16
3.2 DATA SOURCES 16
3.2.1. Secondary Sources *16*
3.2.2. Primary Sources *17*
3.3 DATA COLLECTION METHOD 18
3.4 DATA COLLECTION TOOLS 19
3.5 INFORMATION PROCESSING AND ANALYSIS 19
3.6 ASSESSMENT TECHNIQUE 19

4. RESULTS AND DISCUSSIONS **20**

4.1 SITUATION ANALYSIS 20
4.1.1. Nepalese Insurance Sector *20*

4.1.2. Microinsurance Value Chain *21*
4.1.3. Policy Environment *21*
4.1.4. Microfinance Institutions in Microinsurance *23*
4.1.5. Degree of Involvement *24*
4.1.6. Operational Modalities *26*
4.1.7. Strategies and Practices on Retail Microinsurance Operation *28*
4.1.8. Comparative Analysis of Microinsurance Schemes *29*
4.2 STRENGTHS, WEAKNESSES, OPPORTUNITIES AND CHALLENGES ANALYSIS 31
4.2.1. Barriers to Commercialization *31*
4.2.2. Microinsurance Sector *32*
4.2.3. Microinsurance Modalities *33*
4.3 CAPACITY DEVELOPMENT NEED ASSESSMENT 35
4.3.1. Current Situation *35*
4.3.2. Area of Intervention *36*
4.4 WAY FORWARD 37
4.4.1. Future Strategies *37*
4.4.2. Implementation Plan *39*

5. SUMMARY, CONCLUSIONS AND RECOMMEDNATIONS 41

5.1 SUMMARY 41
5.2 CONCLUSIONS 42
5.3 RECOMMENDATIONS 42
5.3.1. Overall Recommendations *42*
5.3.2. Specific Recommendations *43*

ANNEXES 45

ANNEX A: DATA COLLECTION TOOLS 47

CHECKLIST 1: INSTITUTIONAL SURVEY FORM 47
CHECKLIST 2: FOR MICROINSURANCE POLICY HOLDER 50
CHECKLIST 3: FOR MICROINSURANCE POLICY HOLDER RECEIVING CLAIMS 52

ANNEX B: LIST OF THE PERSON MET 54

ANNEX C: LIST OF PARTICIPANTS OF FOCUS GROUP DISCUSSION 55

REFERENCES 59

LIST OF TABLES

TABLE 1: COMPARISON OF MICROINSURANCE BUSINESS MODEL 11
TABLE 2: OVERVIEW OF FOCUS GROUP DISCUSSION CONDUCTED IN THIS RESEARCH 18
TABLE 3: MICROFINANCE INSTITUTIONS ON MICROINSURANCE OPERATION 24
TABLE 4: SCALE AND TYPE OF MICROINSURANCE SERVICES OFFERED BY MFIS 25
TABLE 5: BASIC FEATURES OF MICROINSURANCE SCHEMES IMPLEMENTED BY MFIS INCLUDED IN THIS RESEARCH 26
TABLE 6: LIST OF MICROINSURANCE MODELS AND LEADING MFIS 26
TABLE 7: STRATEGIES AND PRACTICES USED BY MFIS ON DELIVERY OF MICROINSURANCE SERVICES 28
TABLE 8: SCALE AND TYPOLOGY OF MICROINSURANCE SERVICES IN NEPAL 30
TABLE 9: CHALLENGES ON MICROINSURANCE SERVICE DELIVERY MODELS 32
TABLE 10: SWOT ANALYSIS OF NEPALESE MICROINSURANCE SECTOR 32
TABLE 11: SWOT ANALYSIS OF MICROINSURANCE MODALITIES 33
TABLE 12: CAPACITY DEVELOPMENT TOWARDS COMMERCIALIZATION OF MICROINSURANCE IN NEPAL 36
TABLE 13: NATURE AND TYPES OF INTERVENTION FOR COMMERCIALIZATION OF MICROINSURANCE SERVICE 38
TABLE 14: IMPLEMENTATION PLAN FOR COMMERCIALIZATION OF MICROINSURANCE AMONG MFIS 39
TABLE 15: SPECIFIC RECOMMENDATIONS OF THE RESEARCH 43

LIST OF FIGURES

FIGURE 1: CORE INSURANCE PRINCIPLES 6
FIGURE 2: LEVELS OF THE INSURANCE SECTOR 7
FIGURE 3: MICROINSURANCE SUPPLY CHAIN 8
FIGURE 4: METHODOLOGY OF THE STUDY 16

ACRONYMS AND ABBREVIATION

ADBL	:	Agriculture Development Bank Ltd.
ALICO	:	American Life Insurance Company
BISCOL	:	Bindabashini Savings and Credit Cooperatives Ltd.
BS	:	Beema Samitee
CLBBL	:	Chhemek Laghu Bitta Bikas Bank Ltd.
CGAP	:	Consultative Group to Assist the Poor
DDBL	:	DEPROSC Development Bank
DICGC	:	Deposit Insurance and Credit Guarantee Corporation
FGD	:	Focus Group Discussion
FI	:	Financial Intermediary
GON	:	Government of Nepal
IB	:	Insurance Board
INAFI	:	International Network of Alternative Financial Institutions
MFDB	:	Microfinance Development Bank
MFI	:	Microfinance Institution
MIAN	:	Microfinance Association of Netherland
NEFSCUN	:	National Federation for Savings and Credit Cooperatives Union Nepal
NGO	:	Non Government Organizations
NLGIC	:	National Life and General Insurance Company
NLIC	:	National Life Insurance Company
NUBL	:	Nirdhan Uthan Bank
RBS	:	Rastriya Beema Samitee
RMDC	:	Rural Microfinance Development Centre
RSRF	:	Rural Self Reliance Fund
SCC	:	Savings and Credit Cooperatives
SCF	:	Save the Children Federation
SFCL	:	Small Farmer Cooperative Limited
SFDB	:	Small Farmer Development Bank
SLBBL	:	Swalamban Laghu Bitta Bikas Bank
SWOC	:	Strengths, Weakness, Opportunities and Challenges

1. INTRODUCTION

1.1 Background

Insurance system is one of the major aspects of Finance in any country. This practice is prevalent from hundreds of years. Insurance holds significance importance in Nepal where modern insurance was developed after the establishment of Nepal Bank Limited in 1994 and some other industries like Biratnagar Jute Mill, etc. Concept of insurance policy was first brought in Nepal by Judda Samsher in 1992 B. To start with, Indian Insurance Company was engaged in providing insurance services and there was no such corporation registered in Nepal before 2004 B.S. (1947 AD).

Role of insurance as one of the important tools on mitigating economic loss of risk on individuals has been realized late in Nepal. As such it run under the concept of cooperative, in which a certain risk distributed homogeneously among individuals or groups and effective way of dividing burden of risk to number of people under similar situation and circumstances. Thus the purpose of insurance is to protect people and his/her property / business from different types of risk and uncertainty. Given its importance, insurance has already been established as the forth basic needs of human lives, which assure economic security and certainly by integrating various people within the coverage net (Churchill 2006). But a majority of the poor and disadvantaged groups are fully aware of aware of this economic safety net because of lack of awareness and failure of concerned authorities.

Rastriya Beema Samiti (RBS) was the first insurance company operating in Nepal which was established as an autonomous body to develop and systemize Nepalese insurance business. RBS started its business from 2024 B.S. (1967AD) with the insurance of motor vehicle of King Mahendra. In 2025, this private company was changed into corporation and named Rastriya Beema Shansthan (RBS) under Rastriya Beema Shansthan Act 2025 (1968AD). The first private insurance company in Nepal was National Life and General Insurance Company Private Limited established in 2043 B.S. (1986 A.D.). Due to some internal reasons it started its business only after 2044 B.S. (1987 A.D.).

After the restoration of democracy in 1990, insurance environment in Nepal began to change simultaneously along with other factors. In order to meet the requirements of the changing situation, Insurance Act 2068 was replaced by new Insurance Act 1992. At present, Insurance Act, 1992 and Insurance Regulation, 1993 governs Nepalese insurance business. Preamble of the Insurance Act clearly states the purpose of the Act as "to establish an insurance Board to systematize, regularize, develop and regulate the insurance business". In order to achieve the goal of the preamble, Beema Samiti (Insurance Board) was established as an autonomous body under the insurance act 1992. The Board looks after all insurance related activities. As a regulatory body, the Board's main concern is to create a professional, healthy and developed insurance market in Nepal.

Insurance Act does not restrict the pattern of ownership, location of business inside the country or legal forms such as subsidiaries versus branches versus joint ventures. As a result both national and joint venture insurance company started their operation in Nepal. In the case of foreign joint ventures, 20 per cent of the shares have to be issued to the public but the insurer is not allowed to operate life insurance and non-life insurance businesses side by side through same organization. Insurance act and rules have incorporated various provisions that

are related to prudential regulations. The insurer has to maintain a separate insurance fund for each category of insurance business. While creating a separate fund for a life insurance business, the amount should not be less than total liability as specified by insurance policies. Similarly, in the case of a non-life insurance business, the amount should not be less than 50 per cent of net non-life insurance premiums. As of December 2011, there 25 insurance companies, eight of them are involved in life insurance, 16 are involved in non-life insurance and one is doing both life and non-life insurance activities.

The outreach of nine insurance companies performing life insurance business in Nepal is estimated at 5.6 percent of total population in 2011. If multiple numbers of policies held by people are considered, the actual penetration level is below this mark. Despite the aggressive publicity campaign mounted by a few life insurance companies over the last two years, a majority of people are still unaware of life insurance. Even if they have heard about life insurance, they are not aware about value preposition that life insurance products can bring to their individual lives. Insurance Board has not been able to publicize life insurance scheme in Nepal (Jha 2012). Micro-insurance is yet a new activity among Nepalese mainstream insurance companies and most of the poor and disadvantaged groups are yet to be brought under the ambit of their services.

1.2 Statement of Problem

Micro-insurance is one of the financial services required for the poor and disadvantaged groups for sustainable poverty reduction mainly due to the fact that risk and vulnerability to risk are fundamental causes of underdevelopment (World Bank 2000). Low income households are particularly vulnerable to risk and negative external shocks such as natural disaster, illness/death of main breadwinner, etc., due to their low asset base. Problem of risk and vulnerability is more serious in circumstances where insurance market is poorly developed. Realizing the paramount role of enhancing access to micro-insurance services to address risks and vulnerability of poor and disadvantaged groups and limited involvement of mainstream insurance companies to offer micro-insurance services, Nepalese Microfinance Institutions (MFIs) has implemented micro-insurance scheme under different names such as crop insurance, livestock insurance, death relief scheme, micro-life insurance, and welfare scheme. Most MFIs have designed these schemes on addressing vulnerability issues of the poor and disadvantaged groups. Some of these instruments are (i) risk pooling schemes such as death relief, guthies and funeral and burial societies, (ii) income support such as credit arrangements and cash transfers, and (iii) consumption smoothening arrangements such as savings and grain banks (Bhattamishra and Barrett 2008). However, these schemes are characterized by narrow coverage and protection against risk and vulnerability, low returns for households and inadequate mechanisms for risk spreading. Thus, these schemes are prone to breakdown at the time of epidemic or emergencies. Owing to limited or no involvement of mainstream insurance companies due to varied reasons, these schemes are yet to be commercialized.

As micro-insurance schemes of Nepalese MFIs operates outside prevailing legal and regulatory framework, and insurance board has not recognized them as insurance scheme and most of the MFIs has operated it under different name such as relief scheme or protection scheme or welfare scheme. Thus, enhancing access to insurance services to the poor and disadvantaged groups is a challenge in Nepal where state of institution development in at an infancy stage and there is a need for a renewed thinking.

On the absence of access to microinsurance services, low income households are compelled to forego higher return livelihood strategies for lower-risk avenues that reduce risk (Malika and Kurikose, 2008). In general, traditional forms of insurance have often been beyond the reach of poor persons and there is a need of innovations in microinsurance for increasing outreach and coverage across lower income tiers.

1.3 Rationale/Justification

Microinsurance has been implemented in different form and modalities by different Nepalese MFIs. Insurance act and regulations should govern microinsurance operation but it is not happening. Most of the microinsurance operation has been implemented outside the preview of insurance act and regulations and these schemes could not continue long as it is. There is a need to be formalized these schemes sooner or later. This is in cognizance to the fact that involvement of mainstream insurance companies on microinsurance offer superior risk management alternatives and this requires proven mechanism to ensure access to these services to poor and disadvantaged groups.

Microfinance policy 2063 includes microinsurance as one of the microfinance services. There is no separate policy and act to governing microinsurance operation. Insurance Board has been working with insurance companies to motivate them down scale their insurance operation for the poor and disadvantaged groups. Government and donors has increased interest and commitment for promoting microinsurance schemes. Commercialization of different microinsurance schemes implemented by MFIs has been one of the cost and time effective innovations to expand access to microinsurance services for the poor and disadvantaged groups and there is a need to explore possibilities of commercializing different microinsurance schemes implemented by Nepalese MFIs.

1.4 Objectives

This research aims at documenting current situation and explores prospects and potentials for commercialization of Nepalese microinsurance sector. The specific objectives of this research are the following.

- Undertake situation analysis and comparative analysis of different microinsurance modalities implemented in Nepalese microfinance market.
- Identify opportunities and challenges for commercializing microinsurance in Nepal.
- Assess the capacity development need to ensure linkages of microfinance clients with microinsurance service providers.
- Suggest strategies and prepare implementation plan for promoting commercial microinsurance services.

1.5 Scope

The scope of this study was the following.

- Situation analysis of MFI in insurance market
  - Review the degree of involvement of MFIs in insurance market,
  - Conduct one-to-one meeting and consultative meeting to assess the status of existing business models for retail microinsurance operation,
  - Assess internal and external environmental (policy, acts and rules) to institute microinsurance operation,

    - Identify the risk and challenges inherent to mainstreaming microinsurance operation,
    - Document current strategies and practices adopted by regulators and other stakeholders to streamline microinsurance operation among poor and disadvantaged groups,
- Analyze scale and typology of microinsurance services namely crop and livestock insurance and death relief scheme extended by insurance companies, banks and financial institutions.
- SWOT analysis of linking microfinance clients into microinsurance operation
    - Identify strengths, weakness, opportunities and challenges of different models of insurance models currently implemented in Nepal for poor and disadvantaged groups,
    - Document challenges to establish business cases for microinsurance to cater the services microfinance clients,
- Assess the capacity development need assessment to enable Nepalese MFIs to either actively play or streamline insurance operation
    - Develop a strategy for enhancing integration of microfinance clients into microinsurance services that will enable Nepalese MFIs realize existing and emerging opportunities as well as overcome challenges for their successful entry in the microinsurance market,
    - Identify areas of interventions (training, exposure visit, technical advice, etc.) required to develop the capacity of the Nepalese MFIs to operate in the microinsurance market,
- Develop implementation plan for promoting microinsurance services involving MFIs.

1.6 Report Organisation

This report is organized into five sections. After this introductory section, section two summarizes the findings of the review of relevant literature on commercialization of informal remittance operation. Section three outlines methodology adopted in this research while section four presents the results and discussions of this research. The report concludes with summary of major findings, conclusions and recommendations in section five.

2. REVIEW OF LITERATURE

This section provides a literature review in areas of microinsurance, different models of micro-insurance, commercialization of micro-insurance, opportunities and challenges to micro-insurance, capacity development need for commercialization and linkages of micro-insurance operators with mainstream micro-insurance operators. The section begins with rationale for micro-insurance, identifying micro-insurance business models leading to identification of opportunities and challenges for commercialization.

2.1 Rationale for Micro-insurance

Micro-insurance is a subset of insurance that provides financial protection to the poor for certain risks in a way that reflects their cash constraints and coverage requirements (Chandani 2009). It relates to protection of low-income people against specific perils in exchange of regular premium payments, proportionate to likelihood and cost of risk involved (CGAP 2003). It is not similar to savings and transfers. Microinsurance involves issues such as asymmetric information, adverse selection and moral hazards in microinsurance operation as well. Microinsurance is powerful tool for (i) protecting poor and their assets from negative external shocks, (ii) compensating the effects of covariate shocks such as natural disasters, (iii) addressing gender specific vulnerabilities, (iv) freeing up household capital for investment in small enterprise, (v) helping households avoid poverty traps, and (vi) expanding informal insurance schemes and social protection (Malika and Kurikose, 2008). Thus in order enable microinsurance to operate as anticipated, microinsurance product must be specifically tailored to the poor's priority needs for risk protection in terms of coverage types, be easy to understand, and offer affordable premiums (CGAP 2003).

A vast majority of the poor work in informal or agricultural sectors and do not have access to formal finance (ILO 2001). They neither can afford commercial insurance nor access social protection benefits such as health, disability or unemployment coverage, which are provided by employers and often co-finished by governments. Of all socioeconomic groups, poor are most vulnerable to financial shocks and are least protected. They usually cope with financial crisis by reducing their household expenditures, drawing on savings, selling productive assets or taking out emergency loans. Micro-insurance is a viable strategy to fill this gap and deliver insurance that is affordable, accessible and appropriate to the needs of the poor (Chandini 2009). Both poor and non-poor people confront with similar risks and uncertainty. But risk for poor have greater financial impact and occur with greater frequency. Vulnerability of poor people is exacerbated each time they incur a loss, creating a vicious cycle that precludes lasting improvements in human and economic welfare. Key risks include death, illness or injury, loss of property and natural disaster. There are several strategies adopted by poor people to manage their risk. While some poor people manage risk with their own means, many depend on multiple informal mechanisms such as cash savings, asset ownership, rotating savings and credit associations, moneylenders to prepare for and cope with such risks as the death of a family breadwinner, severe illness, or loss of livestock. Very few low-income house-holds have access to formal insurance for such risks (CGAP 2003).

Characteristics of an inclusive insurance sector refers to access of all insurable people to multiple and diverse types and financially sound providers and intermediaries at reasonable cost and diversity of products. The effective consumer protection and micro-insurance are an integral component of the financial sector (Klein and Wiedmaier-Pfister 2007).

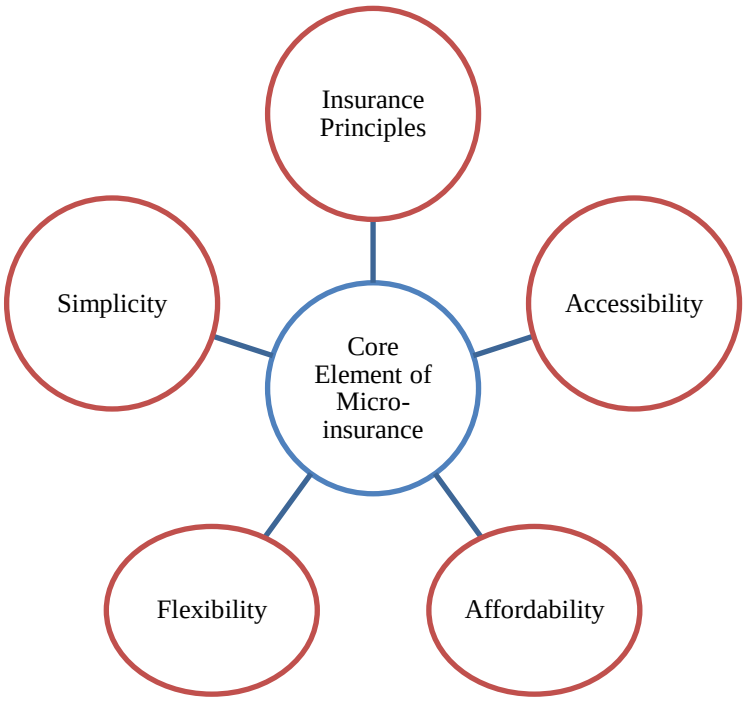
2.2 State of the Art on Micro-insurance

In what follows, state of the art on micro-insurance sector covering aspects such as micro-insurance supply chain, core-element of micro-insurance, level of insurance operation, delivery models and business models on micro-insurance and comparison of business models have been reviewed.

2.2.1. Core Elements of Micro-insurance

Though the concept of microinsurance is gaining in popularity across the globe, there is no commonly accepted definition. Microinsurance can be defined by following characteristics:

Figure 1: Core Insurance Principles



Insurance principles: This refers to payment of premiums by policyholders or on policyholder's behalf by governments, developmental agencies, etc. in exchange of promise of indemnification by the insurer in the event of covered loss.

Accessibility: Microinsurance targets the segment of society with low and instable income who would not otherwise be able to afford conventional insurance.

Affordability: Premiums and coverage are kept at a low level in order to make products affordable to target population. Premium subsidies provided by governments or developmental agencies also help to ensure that products are affordable.

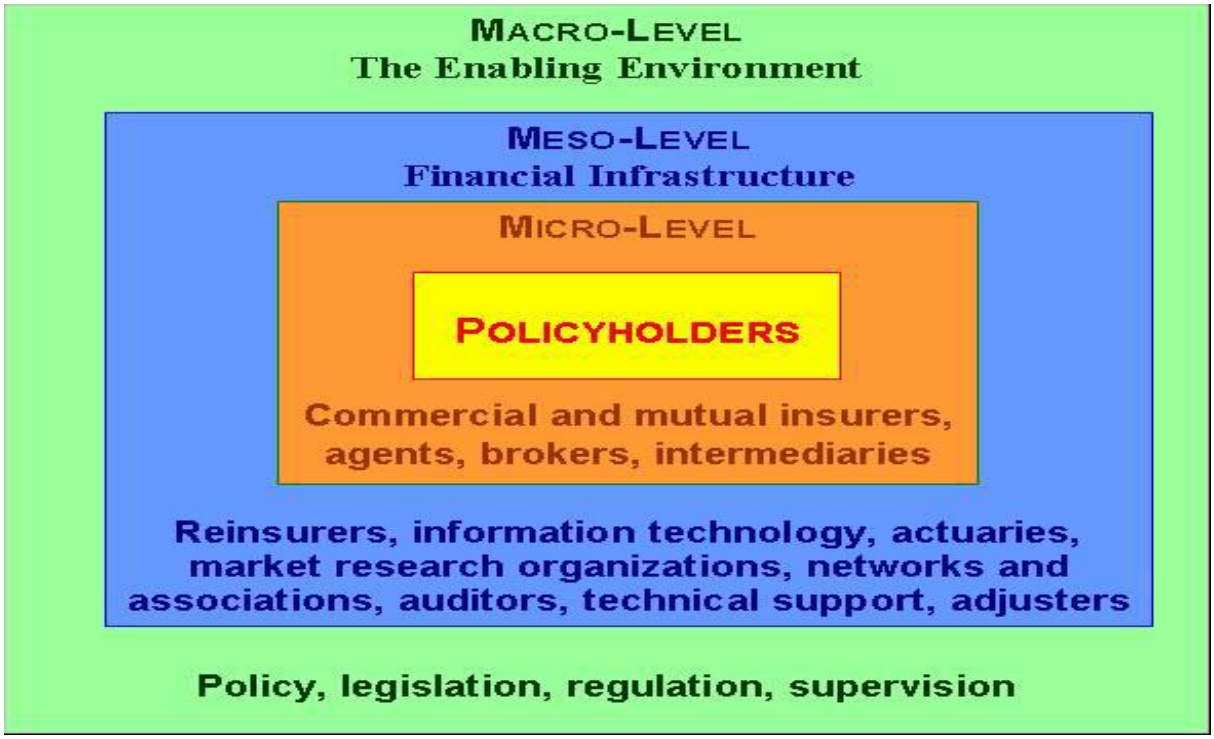
Flexibility: Since low-income segment is not homogenous cluster, microinsurance products require customization to meet community requirements in an effective way. For instance, premium collection can be tailored to suit the irregular income stream of policyholders.

Simplicity: Microinsurance should be structured simply in terms of product design, underwriting conditions, premiums collection, policy language and claims handling. This takes into consideration the lack of actuarial data in many cases and help to make the products easy to understand and more acceptable.

2.2.2. Level of Insurance Sector

The best and scientific process to analyze the micro-insurance environment is focused at dividing entire process into three sections – micro, meso and macro level (Martina Wiedmaier-Pfister and M. J. McCord 2007).

Figure 2: Levels of the Insurance Sector



Micro Level: This is the front line of microinsurance and includes those companies and organizations that design and underwrite microinsurance products as well as those that are involved in the delivery of such policies. Such a delivery channels include agents, credit unions, brokers, NGOs, MFIs and premium collectors.

Meso Level: This axis between macro and micro levels include organizations and individuals that support development and implementation of microinsurance products. These include: associations of insurers and of current and potential delivery channels, training institutions, research organizations, actuaries, reinsurers, technical assistance providers, Management Information System (MIS) and others that add value to microinsurance.

Macro Level: This level refers to those parties that can create and maintain an enabling environment for microinsurance. These entities are typically housed within government and include regulators, supervisors and policymakers. With well-structured legislation and policy, insurance industry is able to operate prudently and securely. Coupled with well-directed

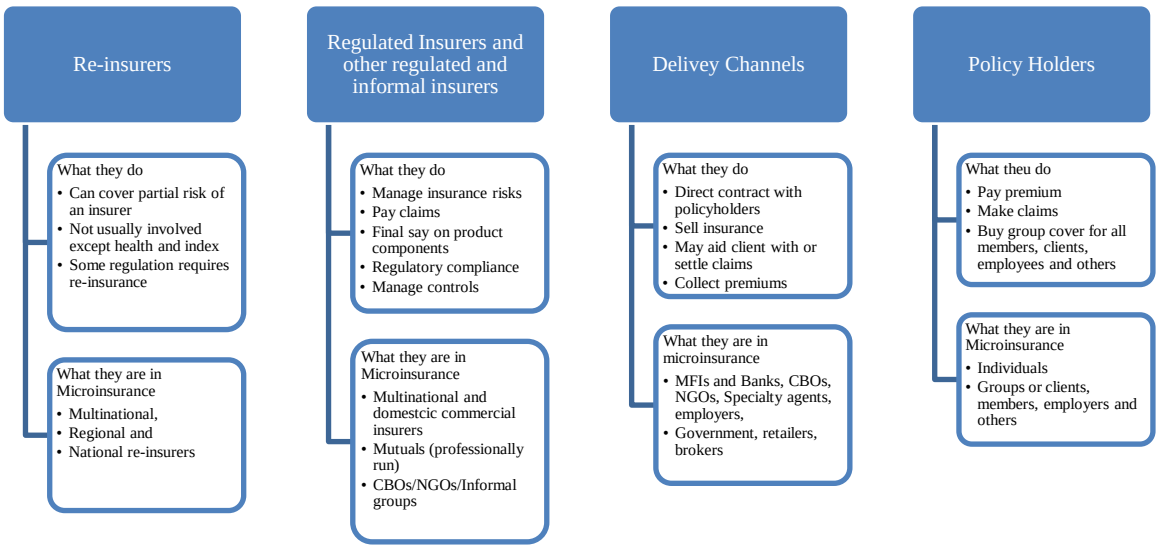
supervision and regulation, market is able to develop in a way that benefits micro and meso level but most importantly the policyholders.

Low-income households are exposed to risk such as death or serious illness of a breadwinner, loss of year's harvest due to natural disaster and property loss. Effective interventions into microinsurance require reviewing status of each of these levels to gain an understanding of areas which may require adjustment. It is only through a broad inclusive focus across levels leading to strength within each level that significant interventions might be successful (Martina Wiedmaier-Pfister and M. J. McCord 2007).

2.2.3. Microinsurance Supply Chain

A range of players and institutions are involved in the microinsurance supply chain (Figure 1). They include insurance regulators, risk carriers, administrators, delivery channels, technology platforms and related service providers (Chandani 2009).

Figure 3: Microinsurance Supply Chain



REGULATIONS and SUPERVISION –Foundation of sound consumer protection
TECHNOLOGY and SUPPORT STRUCTURE – Actuaries, associations, IT providers
THIRD PARTY SERVICE PROVIDERS – health facilities, community organizations

Source: Microinsurance Centre, 2010.

Insurance regulators have a vital role in the sector to protect consumer interests and institute a legal and policy framework for microinsurance. Risk carriers (primary insurers and reinsurers) are liable for the risk. They may be for-profit or not-for-profit entities, and they may or may not be regulated by insurance law. Risk carriers include cooperatives or mutual insurance companies, joint-stock companies, public-sector insurers, and a variety of community-based schemes. Administrators offer specialized back-office support or claims processing in the supply chain. The risk carrier or delivery channel also may accomplish these functions. Delivery channels, acting as agents, directly interact with low-income policy-holders; they include MFIs, credit unions, cooperatives, labor unions, retail outlets, NGOs, post offices, or other specialized sales forces. Technology platforms enable the processing of

services across the chain and include electronic media, such as personal digital assistants and mobile phones, or social mechanisms, such as group-based premium collection. Support institutions include actuaries, associations, and technology providers. Other critical members of the insurance chain are associated with specific products, including health care providers or funeral organizations. These entities are third-party facilities that work with risk carriers or independently manage and sell health insurance (Chandani 2009).

2.2.4. Delivery Models

In general organization, institution and provider involved determines methods/ models for delivering microinsurance products. There are four main methods for offering microinsurance as discussed hereunder (Bențe Corneliu 2008).

Partner agent model
A partnership is formed between micro-insurance scheme and an agent (insurance company, MFI, donor, etc.), and in some cases a third-party healthcare provider. Micro-insurance scheme is responsible for delivery and marketing of products to the clients, while the agent retains all responsibility for design and development. In this model, microinsurance schemes benefit from limited risk, but are also disadvantaged in their limited control.

Full service model
In this model, micro-insurance scheme is in charge of everything; both design and delivery of products to clients, working with external healthcare providers to provide services. This model has advantage of offering full control micro-insurance schemes albeit disadvantage of higher risks.

Provider-driven model
Healthcare provider is micro-insurance scheme and similar to full-service model; it is responsible for all operations, delivery, design, and service. There is an advantage once more in amount of control retained, yet disadvantage in the limitations on products and services.

Community-based/mutual model
Policyholders or clients are in charge, managing and owning operations and working with external healthcare providers to offer services. This model is advantageous for its ability to design and market products more easily and effectively, yet is disadvantaged by its small size and scope of operations.

2.2.5. Business Models

Micro-insurance is managed according to insurance principles and funded by premiums. It can cover any risk that is insurable at a reasonable cost, including illness, accidental injury, death, and property or crop loss. Microinsurance is implemented and distributed through various channels, often associated with the type of insurance. Community-based and mutual insurance schemes now exist side by side with commercial insurers that have started to recognize the potential market among low-income consumers (Chandini 2009).

Commercial Insurer
They are for-profit entities regulated and licensed under insurance act and rules. They traditionally serve middle and high-end markets and gradually recognizing potential

opportunities among low-income consumers. Commercial insurers are newcomers to the microinsurance market (Roth, McCord and Liber 2007). These insurers have a double bottom line: they are committed to serving the poor and making a profit. They typically work through intermediary delivery channels such as MFIs, trade unions, retail stores, NGOs, and cell phone networks to enhance their efficiency in serving low-income market. By utilizing economies of scale, these delivery channels can reduce premiums charged to customers as they have established relationships with clients and allow consumers to purchase insurance from organizations or people they trust.

Cooperatives and Mutual Insurer

Cooperatives and mutual health insurance schemes are member-based organizations regulated under insurance or cooperative law. They are distinct from commercial insurers in their ownership structure as they are owned by their members or customers rather than by investors and profits are distributed to members after meeting reserve requirements. There are two types of cooperative models: one is the stand-alone mutual company, which is independent of any network and usually large in scale. The second model is a network of financial cooperatives that provides insurance services to its members by affiliating with an insurance company. Most cooperative insurers do not focus on the low-income market and tend to sell a limited selection of insurance products. Credit life and long-term savings life are the most widely available products. Depending on the capacity of the insurer, some of them provide more complex products, including family income assistance, and health, funeral, and disability insurance. Mutual or cooperative insurers commonly form federations or interalliances to improve their outreach and sustainability. During this process they improve their bargaining power with suppliers and have potential to offer better products to their members (Fischer and Qureshi 2006).

Community-Based Schemes

A variety of community-based insurance schemes operate around the world, generally falling outside the purview of formal insurance regulation. Either laws other than insurance-related ones regulate many community-based institutions or they operate outside any legal framework, hence cannot access commercial reinsurance. These schemes are characterized by participation of community who are uninsured and come together for the purpose of pooling their risks and based on participatory decision-making and group solidarity. Typical community based schemes are funeral societies; community based mutual insurers, informal insurers, etc. (Fonteneau and Galland 2006). These schemes tend to be localized and small in scale, drawing membership on a voluntary basis within a limited geographical area. They tend to target workers in informal sector, including farmers and self-employed. Besides their small scale, community-based schemes generally have a homogenous membership and inability to diversify risk adequately across population groups or to cross-subsidize between richer and poorer groups. Other factors that limit their sustainability lie at their low risk-management skills and inability to access reinsurance. Premiums are typically set by members of the group rather than actuarial data and are based on what people are able to pay rather than cost structure of benefits received. Thus these schemes are vulnerable to covariant risks that affect a whole community at once (Roth, McCord and Liver 2007).

2.2.6. Comparison of Busienss Models

A variety of institutions can and do serve the poor with insurance products. The three basis micro-insurance business model differs in terms of degree to which they are regulated, their

organizational structure, type of ownership and management, and primary insurance products that are offered (Chandani 2009).

Table 1: Comparison of Microinsurance Business Model

Parameter	Commercial insurers	Cooperatives / Mutual Insurers	Community-based schemes
Regulation	Regulated by insurance law	Regulated by insurance law, some mutual insurers fall under cooperative law instead	Not regulated by insurance law, many schemes fall under non-insurance laws. Informal schemes are entirely unregulated.
Structure	Work in partnership with delivery channels to reach policyholders.	Some mutual insurers operate as a full-service model; cooperative networks own the insurers, thus managing risk and distribution under one roof.	Full service model: manage risk and markets products to members
Ownership / Management	Joint stock companies; profits distributed to shareholders	Member-owned institutions; professionally managed	Most CBOs are member owned; members typically volunteers, manage most of them
Primary product(s)	Life insurance and credit insurance; health coverage usually restricted to inpatient care.	Life insurance and credit insurance.	Welfare and relief related.

Source: Chandini 2009

Challenge is to minimize the trade-offs in each model and ensure that different entities are able to offer services that are customized for diverse poor populations. This goal entails building capacity of community-based organizations and affording them greater technical support and regulatory oversight. This means working with commercial and cooperative insurers to tailor products for the poor rather than downscale their existing services. An ideal microinsurance market includes different models that collectively meet demand of different population segments, offering high-value insurance products at appropriate price points (Chandani 2009).

2.3 Opportunities and Challenges

2.3.1. Opportunities

Microinsurance is essentially community based schemes and is at an infancy and nascent stage. There exist enormous opportunities to commercialize microinsurance in different parts of the world to ensure sustainability on their operation which requires an understanding of both supply side i.e. current insurance market and demand side i.e. risks faced by low-income persons and the coping strategies used to manage these risks operation (Roth, McCord and Liver 2007). The main risks faced by low-income households are death or serious illness of a breadwinner, loss of year's harvest due to natural disaster and property loss. Currently, most households use self-insurance and informal insurance as their primary risk management tools; savings and purchase of fixed assets are utilized ex-ante, while borrowing or migrating for work are used to cover expenses ex-post. Clearly, the effectiveness of such strategies is limited. However, most low-income persons do not currently consider insurance as a viable risk management alternative. There are many ways to explain this: firstly, there is a lack of

financial education among the population about the purpose and benefits of insurance. Secondly, there is a widespread lack of trust in institutions. In addition, most low-income households feel they do not have sufficient financial resources, perceiving insurance as an "extra" or even "wasteful" expense, or as a luxury product. Finally, most insurance firms do not offer any products targeted to the lower-income population, nor are making a marked effort to reach out to this segment (Bențe Corneliu 2008).

Currently, most insurance firms offer a traditional product range, many relying on automobile and other compulsory insurances. Direct sales through intermediaries are very common, and marketing is primarily executed through traditional mass media such as television, radio, print advertising. One of the main issues with the current product offering is that most products are not affordable, but also payment is required in full and upfront. Microinsurance is a mostly unknown concept in most countries. There is no specific microinsurance legislation, although the government has expressed openness to the possibility of developing one in the future. Microfinance, however, is quite well-developed and regulated, which is often a prerequisite for the successful launch of microinsurance into a new market (Roth, McCord and Liver 2007).

With limited access to savings and insurance, majority of poor are unprepared for any future financial needs. Most common reason for saving and borrowing is for consumptions and education for themselves and children. This contributes to the vicious cycle of poverty and chronic dependency that has become prevalent today. Limited access to affordable insurance and lack of awareness and negative attitudes towards insurance prevents poor planning for life's events (David K Ronoh 2009).

Insurers need to tailor made their products to suit customer needs and anticipate how those needs would change over time. There is a need to account the fact that low-income market receives their income on a daily basis and identify the needs for this market by exploring payment of premiums in installments to fit their lifestyles. Most existing products are of poor quality, most are linked to credit schemes and are designed to protect the lender should the borrower die. Better quality tailor made products are needed which truly assist the family with continuing cover after the death of the breadwinner (Roth, McCord and Liver 2007).

The most common microinsurance products involve relatively low administrative burden, easily accustomed to fit the financial means and demands of the poorest of the poor. The benefits usually consist of lump sum payment. Life or personal accident are often combined with health insurance or property insurance, credit life or accident insurance, however health insurance and property insurance are difficult to implement due to high claims handling costs and volumes. On the other hand, property micro insurance is difficult, especially given the tight margins, to control policyholder fraud and moral hazard. Innovative ways to deliver these products are necessary. Low insurance awareness amongst the income households is a challenge since majority of relevant microinsurance products are voluntary policies while the compulsory products are usually linked to credit services (David K Ronoh 2009).

2.3.2. Challenges

Creating a viable micro-insurance scheme is a key challenge in micro-insurance operation (Churchil and Garand 2006)[1]. Micro-insurance is quickly emerging as an important microfinance services as practitioners explore innovative models and as low-income consumers understand the concept of risk transfer. While it is understood that risk alleviation is part of the role that microfinance plays in economic growth, there are plenty of hurdles for insurance providers to overcome before this service gains popularity. Some of these huddles are outlined hereunder.

Market Challenges:
Marketing of the product and services is one of the major challenges of micro-insurance operation. Volume became a big issue for a micro insurance network which has initially shown a lot of promise and scale economy is equally important. This has been compounded by the lack of insurance awareness which results in relatively low demand for microinsurance products. Insurance poor reputation due to delayed claims settlement need to be correct and build up trust by making it easy to claim and prompt settlement. Delivery is another constraint in microinsurance service delivery. Existing delivery channels often do not see opportunities in microinsurance or recognize secondary benefits they tend rather to focus only on how insurance benefits them through commissions and portfolio protection. Innovative strategic partnerships with partners that is closely associated to target population such as retailers, churches, CBOs, SACCOS, MFIs etc. (David K Ronoh 2009). Other aspects of market challenge include high client acquisition cost which is made up of costs incurred to reach potential policyholders living in remote areas not reachable by conventional distribution networks such as brokers and agents. This is a real challenge for insurers to become sustainable by balancing between low premium income and expenses. There is also miss-selling due to complex nature of mass distribution of microinsurance insurance products can pose a risk to underwriters due to risk of miss-selling. Each village and each community face different kinds of risks that need to be insured and knowing these minor distinctions is vital for the adoption of any insurance product. An insurer can't just offer what they always do but at a reduced price. A product really has to be redesigned after assessing what the local needs are, and it has to be accessible (Churchil and Garand 2006).

Administrative Challenges
Unlike the case in credit, where micro-entrepreneur borrows money and takes up responsibility of returning it, insurance reverses responsibility of risk. In micro lending, provider puts up capital and trusts customer to pay it back; in insurance, policyholder pays up front and hopes provider keeps its promise to make a payment in accordance with contractual terms. For a tranche of society that probably has never used these insurance products, it's an enormous leap of faith. The solution pointed out is two-fold: flexible repayment schedules and insurance models that are tailored to the micro entrepreneurs needs, which, in itself, is another problem (Chadini 2009). Development of well integrated Information and Communication Technology (ICT) systems coupled with superior ICT skills is most for efficient insurance operation. Underwriters should address this challenge through ICT interfaces that fully integrate with their existing underwriting systems. Collection of information from the at point of sale and reliable communication to policyholders and overall data management and administration, communication such as claims notifications,

1 Microinsurance Compendium 6.1

requirements and settlements, promotions etc. Capacity building in each particular aspect such as underwriting skills, actuarial expertise, product design, development and pricing is very important (David K. Ronoh 2009).

Insurance Regulatory Challenges

Microinsurance needs favorable regulation. It is dangerous for low income households to be insured with unregulated insurers who hold insurance risk without reserves or reinsurance. Too frequently this has led to poor people not only losing their premiums but experiencing full consequences of catastrophe[2]. Other challenges includes adequacy of regulations in terms of safeguarding the interests of microinsurance policyholders, harmonization of current regulatory framework to ensure fair playing field, minimization of supervision and cost of regulation while ensuring high quality service and creation of flexible regulatory framework that motivate micro insurers to innovate and legally provide microinsurance services (David K. Ronoh 2009).

2.4 Capacity Development Need Assessment

Commercialization of micro-insurance services requires external inputs on starting new scheme, launching or improving products, upgrading operations, meeting legal requirements and obtaining re-insurance. This is required in view that the gap between the supply and demand for microinsurance is enormous and there are few providers of insurance services to the poor, and even fewer that actually provide a useful services. Further there are serious competency gaps. Capacity development is required throughout product development process or improvement process or to assist on access to market, develop product prototype, price the product, develop process maps, develop operational and marketing materials, configure MIS, train staff, evaluate the pilot; establish a monitoring system and link with insurers and reinsurers. Further capacity development is also required for organizational development to assist insurers as they evolve over time. Capacity development support is required in micro, meso and macro level (Richard and Lacasse 2006)[3]. In general micro level interventions should be combined with appropriate interventions on the meso and macro levels to have significant impact in the massification of microinsurance. The micro-level intervention should be geared at training, research, and product development. In contrast, the meso level includes those entities that provide support to both the micro and macro levels in order to make the microinsurance operations more effective. These entities are crucial to the smooth works of the microinsurance, and indeed the insurance Industry. Areas of potential intervention on the meso level include market education, technical infrastructure development, training and data collection that benefit microinsurance clients, providers, products and prices. Finally, the macro level is in a perfect position for microinsurance development. Areas of potential intervention on the macro level include regulation, commission support and policy-maker support. It is important that each of these levels is addressed through various technical assistance efforts. One lesson from microfinance is that an unbalanced approach to these levels results in significant blockages to massification.

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2 This include being refused treatment and possibly dying in case of health insurance; losing their homes in case of property insurance and the family being left destitute for life insurance.

3 Microinsurance Compendium 5.5

2.5 Sustainable Microinsurance Operation

Whether the scheme covers its costs with the assistance of donor or governments, or from premium revenues and investment income, sustainability ensures permanent access to services. Sustainability boils down to a trade-off between three competing objectives. How does microinsurance find a balance between (a) coverage: meeting the needs of large volumes of low income people, (ii) costs: operating cost and transaction cost for the insurer, and (iii) affordability: representing the price and transaction cost for clients. Churchil and Garand (2006) have summarized strategies that can be used to achieve sustainability under three broader categories.

Categories	Strategies
Limit benefits	• Start with credit life • Cap benefits • Target benefits • Focus on big ticket items
Focus on efficiency	• Provide member benefits • Use low cost premium payment methods • Rely on inexpensive distribution systems • Control costs • Buy benefits in bulk
Diversify income sources	• Cross-subsidize from other products or markets • Use an endowment fund to subsidize operations • Access government subsidies

2.6 Microfinance and Its Link to Micro-insurance

From conceptual point of view, MFIs can provide a valuable like to the provision of microinsurance. MFIs have important strengths: they have an established institutional framework, are close to the target group and have gained people's trust. They have experienced in social mobilization and group methodologies, which can reduce the transaction costs of insurance provision. They have vested interest in delivering microinsurance due to cross-selling considerations i.e. to improve efficiency and tap new sources of income, and because insurance reduces the financial risk for the borrower and the lender. In addition, MFIs can be used for the implementation of demand studies and awareness creation campaigns. Finally, some microinsurance products have a strong saving character e.g. individual life-insurance, education insurance, other endowments, etc. (GTZ 2004). Major weakness of MFIs, if we consider them in the possible role of insurance providers, are their lack of actuarial and other insurance know-how, the need for a considerable capital base for insurance and risk of venturing into a new and complex field of financial service provisions before they are soundly established. The danger of intermingling service lines is a serious threat. Also, channeling donor money for an insurance program – which is the case with some NGOs – diverts the MFIs from their original role (savings and credit), especially their orientation towards sustainability. It is therefore important to stress that MFIs should only become involved in microinsurance as agents, and not as insurance providers (CGAP 2003).

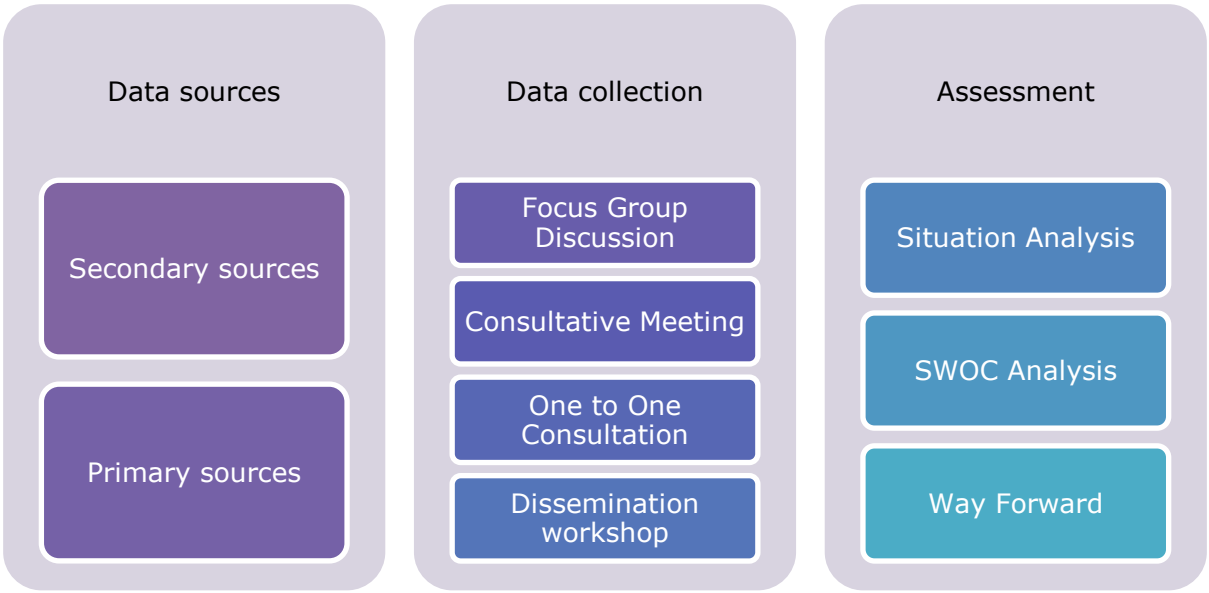
3. RESEARCH METHODOLOGY

This research has two dimensions: (a) undertaking situation analysis and comparative analysis of microinsurance models and (b) suggesting opportunities, challenges and capacity development need for commercializing microinsurance in Nepal. In order to accomplish this goal, this research requires information from government, non-government and private sector organizations including MFIs. Thus, in this research, information were collected both from secondary and primary sources.

3.1 Overall Methodology

Methodology adopted in this research encompasses three stages namely data sources, data collection and assessment. Figure 3 outlines the methodology used in this research.

Figure 4: Methodology of the Study



3.2 Data Sources

Data required for this research were obtained both from secondary and primary sources. A description of data sources of this research follows hereunder.

3.2.1. Secondary Sources

Secondary sources of information for this research include the review of published and un-published information available in different agencies engaged on micro-insurance remittance operation namely Insurance Board, Insurance Companies, and MFIs. These institutions were visited and available secondary information and related literatures were reviewed to collect secondary information used in this research.

3.2.2. Primary Sources

Primary sources of information for this research include information collected through field survey and discussion with key informants and institutions. Primary data were generated through primary sources and to ensure systematic data generation and ensure relatively fair inclusiveness, data were generated from four different levels: Insurance Board, Insurance Companies, MFIs and other key stakeholders including households. A discussion on data collection at each level follows hereunder.

Insurance Board
Survey of Insurance Board was done to gather information on their perceptions and expectations on microinsurance operation. Discussion with Insurance board focused on problems and prospects of commercializing informal microinsurance operation by MFIs including operational modalities.

Insurance Companies
Survey of Insurance Companies were done to gather information on current status on their involvement on remittance operation. Insurance companies surveyed include National Life Insurance Company Limited, Nepal Life Insurance Company, Asian Life Insurance Company and Prime Life Insurance Company. Discussion with these institutions focused on problems / possibilities of down-scaling their insurance operation on micro-insurance sector and measures to be adopted towards commercialization process.

Micro-finance Institutions
In this research survey was conducted representing both categories of MFIs namely MDBs and FI-NGOs working in Nepalese financial market. This research followed two methods to collect required inputs from MFIs: central level and field office level.

At the central level, interviews were conducted with CEO and executives of selected MFIs namely Chhemik Laghu Bitta Bank Ltd. (CLBB), Nirdhan Uthan Bank Ltd (NUBL), Swalamban Bikas Bank Ltd., DEPROSC Bikas Bank (DBB) and Nerude Laghu Bitha Bikas Bank Ltd., Manushi, Jeevan Bikas Samaj and DEPROSC NGO and Bindhabasini Savings and Credit Cooperatives (BISCOL). These MFIs were inquired on different microinsurance products and services.

Three MFIs, one FI-NGO and one SCC were selected for field office level study. These institutions are CLBB, NUBL, DEPROSC NGO and DBB. Branch offices of these MFIs were selected in Kavre, Dhading and Chitwan districts. Banepa branch of DBB, Panauti office of BISCOL, Gajuri branch of DEPROSC NGO and Tandi branch of CLBB and NUBL were selected for this research.

Other stakeholders
Other stakeholder interviewed includes officials of National Planning Commission and Ministry of Finance. These stakeholders were briefed on current status of informal insurance operation and prospects/potentials for commercial micro-insurance operation in general and government efforts and policies on commercialization of informal insurance operation in particular. Further, information required for understanding of insurance operation, current status on instituting microinsurance policies, etc. were also discussed.

Household level
Study team attended center meeting of selected branches of MFIs and SCCs to collect household level information through focus group discussion (FGD). Household level information were collected through FGD representing two different categories of households namely those (i) holding different micro-insurance policies and (ii) receiving claims from micro-insurance policies. Six FCGs were conducted to gather household level information. FGD were conducted in Keraghari and Panchkhal (DBB); Nasik (BISCOL), Charaudi (DEPROSC NGO) and Khairani (NUBL) and Ratnagar (CLBB).

3.3 Data Collection Method

Data collection methods used in this research includes focus group discussion, consultative meeting, one-to-one consultation and dissemination workshop.

Focus Group Discussion
In this research FGD was conducted at six different places, three in Kavre (Keragari, Panchkhal and Nasik), one in Dhading (Chauradi) and two in Chitwan (Ratnagar and Khaireni). FGD were conducted in the centers of the MFIs surveyed during field studies. During FGD, centre members were inquired on various aspects related to microinsurance operation and inquiry was designed to gather information from those households (i) holding micro-insurance policies and (ii) receiving claims from micro-insurance policies. (Table 1).

Table 2: Overview of Focus Group Discussion Conducted in this Research

S.N.	Name of MFIs	Village	Total Members	Holding micro-insurance Policy	Receiving claims from micro-insurance policy
1	BISCOL	Nasik	28	28	1
2	DD Bank	Keraghari	10	10	2
3	DD Bank	Panchkhal	20	20	1
4	Chhemek Bank	Ratnagar	26	26	1
5	Nirdhan Uthan Bank	Khairaheni	25	25	1
6	DEPROSC NGO	Charaudi	11	11	2
	Total		120	120	8

Source: Field Survey October 2011

Consultative Meeting
Preliminary findings of this research were shared among the participated of the two workshop organized by INAFI in Biratnagar and Chitwan. Over 40 participants from different MFIs participated in these workshops. Presentation in the workshop was followed by group work wherein participants provided their invaluable feedback to the study team.

One to One Consultation
One to one consultation was done with Chief Executive Officer (CEO) and Board of Directors (BODs) of MFIs and insurance companies. One to one consultation was done with key staff of Insurance Board, National Life Insurance Company Limited, Nepal Life Insurance Company, Asian Life Insurance Company and Prime Life Insurance Company, CEO/BODs of CLBB, NUBL, Swalamban Bikas Bank Ltd. DBB, Nerude Laghu Bitha Bikas Bank Ltd., BISCOL and DEPROSC NGO. One to one consultation focused on different aspects related to situation of MFIs in Nepalese micro-insurance market, opportunities and

challenges for commercialization of informal micro-insurance operation, feasibility of commercialization of micro-insurance and suggestion on strategies for commercialization of microinsurance among Nepalese microfinance and insurance sector.

Dissemination Workshop
INAFI Nepal organized a dissemination workshop in December 2011 in Kathmandu wherein key findings of this research were shared among the participants. The participants provided invaluable observation, comments, feedback and suggestion on the research findings which has been incorporated in this report.

3.4 Data Collection Tools

Checklist is the main data collection tool used in this research. In order to ensure systematically collection of information required for this research, four sets of checklist were prepared in this research. These checklists includes (a) institutional checklist to collect information from selected MFIs and cooperatives, and (b) checklist for collecting information from households (i) holding micro-insurance policies and (ii) receiving claims from micro-insurance policies. These checklists were used for collection different information required for this research.

3.5 Information Processing and Analysis

The information collected from different sources was compiled, consolidated and analyzed. Analysis was done under both quantitative and qualitative assessment framework. Wherever relevant, qualitative data were used to substantiate the qualitative information.

3.6 Assessment Technique

Assessment of this research encompassed series of stages including (i) situation analysis, (ii) SWOC analysis and (iii) suggesting way forward. Information gathered from different sources was used to document the situation on MFIs in Nepalese insurance market which created basis for undertaking SWOC analysis along with identifying opportunities and challenges for commercialization of informal micro-insurance operation into Nepalese insurance market. Based on SWOC analysis results, feasibility of commercializing microinsurance among Nepalese insurance sector has been assessed and strategies and implementation plan for commercialization of informal microinsurance among Nepalese insurance sector was suggested.

4. RESULTS AND DISCUSSIONS

4.1 Situation Analysis

Nepalese microinsurance sector is at an infancy stage and the scheme has embedded with the access to financial services extended by MFIs as part of their packages. Actually many Nepalese MFIs are involved in microinsurance in one way or other. At present, the combination of two service lines, microfinance and microinsurance is widespread among many MFIs, bet it at the government, private or cooperatively organized side. The combination refers either to ensuring the credit portfolio against borrowers deaths by charging a monthly on sum of outstanding loan balance or by charging a one-time fee on each loan or providing insurance as a service line, mostly health or life insurance.

4.1.1. Nepalese Insurance Sector

Nepalese insurance sector comprises of actors at micro, meso and macro level. The macro level is a perfect position for microinsurance development. The Insurance Act, which does not reference to microinsurance, is being actively reviewed to address gaps. Beema Samiti is mandated by the Act to follow an insurance development role along with its traditional consumer protection / financial system stability responsibility. The meso level includes those entities that provide support to both the micro and macro levels in order to make microinsurance operations more effective. These entities are crucial to the smooth works of the microinsurance industry. Support structures are weak in terms of microinsurance in Nepal. Training facilities are virtually non-existent and delivery channel training both in-house and external appears to be weak. No evidence of microinsurance specific training of other services has been found. Researchers for microinsurance have been limited and situation of technology and infrastructure in terms of electronic communication not better.

The micro level includes individuals within the low-income market as well as those micro-entities that influence them directly. Almost all the clients of the MFIs have some type of micro-insurance products. Typically they are required to purchase it because of another primary demand, such as to obtain credit. Product include term life, life linked savings, disability, funeral, health and some property. These products are provided by 9 life insurance companies, including government owned Rastriya Beema Shansthan (RBS), out of which 4 companies were established in F.Y.2007/08. Except LIC Nepal which has Tax Sheltered Annuity (TSA) with LIC India and the branch of ALICO that is USA based company, no other life insurance company has adopted foreign technology and foreign practices.

There has been some significant growth in number of policies issued over the last 2-3 years, but the growth is primarily in areas of annual insurance of workers going abroad, rather than life insurance as long term investment. Nepal does not have Reinsurance Company which is a setback for development of insurance market and also resulting in huge funds flow outside the country, especially to Indian companies. The other major features of Nepalese market are strong competition, lack of diversified products, low market penetration, low application of information technology for business and lack of awareness of life insurance products. Till now, only one Life Insurance Company practices bank-assurance, though it is a much viable option as banks enjoy considerable goodwill and access in the rural region and have large retail customer base. Nepalese Tax Law provides special deduction up to Rs.20,000 for insurance premium paid for life insurance by individual tax payers. Insurance market is much

primitive and is characterized by low entry barriers and high exit barriers. The former encourage new entrants, although success is not guaranteed and exist is not straightforward.

4.1.2. Microinsurance Value Chain

A range of players and institutions are involved in the microinsurance supply chain. They include insurance regulators, risk carriers, administrators, delivery channels, technology platforms, and related service providers. The risk carriers are mainly comprised of insurance providers, including private and public insurers, non-governmental organizations, mutual and community organizations.

Microinsurance market can be categorized in two broad segments, based on the consumption level of the people and their ability to afford premiums. Those living above the poverty line represent target market segment for commercially viable microinsurance. For this group, it is possible to have an independent market-based approach, whereby microinsurance products are sold at a price that is still affordable to the clients, but also commercial sustainable. The other segment is at the bottom of the income pyramid, which includes people living below poverty line, also referred to us as extremely poor population. The population falling into this category earns so little that they find it hard to afford even basic necessities for their families, let alone the cost of commercially viable micro-insurance products. However, there are other approaches to extend social protection and micro insurance programs to this group. For instance, government can introduce large scale social security measures on their own or subsidized microinsurance premiums through public private partnership programmes.

It is estimated that about 20.25 million populations are above the poverty line which constitutes potential target for various commercially viable microinsurance products and some 6.75 million population are below the poverty line and require support from governments and developmental agencies to access microinsurance products. It has been estimated that about 50% (13.5 million) people can potentially benefit from micro-insurance and/or public private partnership. This translates into 13.5 million policies insurance products. The current market size however is far less. It is estimated that the current penetration of formal insurance is close to 5% of the potential market while penetration of formal insurance is further less.

4.1.3. Policy Environment

Enabling policy environment is a most for protecting the policyholders in general, developing insurance market and sustained growth of microinsurance operation. The insurance sector in Nepal is governed by the Insurance Act, 1993 under the supervision of Nepal Insurance Board (IB). Over all insurance sector in the country is not well develop, there is a lack of awareness about insurance among the general population and the existing companies have some little interest to penetrate the semi-urban and rural areas. To promote micro insurance sector in the country, micro insurance bill 2010 was proposed by the Nepal Insurance Board. In 2011, the Finance Ministry of Nepal directed the Nepal Insurance Board to identify 10 rural districts where first phase micro insurance program can be implemented. According to the Nepal Insurance Board, micro insurance will cover health and assets like crops, livestock, rickshaws and tea shops. Currently, the IB has identified six micro insurance products which will provide coverage of up to Rs 100,000. In the near future, the Nepal Insurance Board also plans to issue a directive that will oblige all the Non Governmental Organization, community

groups and microfinance companies to work as agents of government-authorized insurance companies. Currently, some of the microfinance companies are selling micro-insurance products without taking the permission of the Nepal Insurance Board. Like other business, operation of microinsurance is affected by both internal and external environment.

Internal Environment

Internal environment relates to factors within the control of MFIs that includes their organizational policy, structure, resources, system and procedures etc. These are controllable factors, which have direct bearing on the successful operation of microinsurance operation.

Prevalence of Policies and Guidelines: All the MFIs covered under the study have their written policies with regards to the operation of savings and lending activities, which has been strictly followed in their operation. In addition, they have developed their internal policy and guidelines of offering microinsurance services to their clients/members by different names as the existing insurance law and act of the country does not allow them to use the word of microinsurance. In few instances, these policies have been amended to make them suitable to their and clients/members needs.

Structures in Place: Most of the MFIs lack separate structure in place to look after microinsurance operation as this service has been delivered in packaged service together with loans. They have made an attempt to make the optimum use of the existing structure as the volume of microinsurance operation is small and benefit generated from these services is not enough to manage separate structure.

Physical and Human Resources: MFIs covered under the study have been offering with the use of limited use of both physical and human resources for microinsurance. The discussion held with the senior management of the concerned MFIs shows that they have not make separate staffs provision to look the insurance services.

Systems and Procedures: All MFIs have attempted to make them system and procedures simple and members friendly that covers membership procedure, premium collection and claim handling.

External Environment

External environment of microinsurance operation includes insurance act, insurance regulation and policies in place for the operation of microinsurance.

Silent Features of Insurance Act: Insurance business in Nepal is governed by Insurance Act 2049 (1992) and Insurance Regulation 2049 (1993). These acts and regulations are primarily meant for regulating the activities of formal and main stream insurance companies, providing both life and non- life insurance business in Nepal. The main aim of the Insurance Act is to establish Insurance Board to systematize, regularize, develop and regulate the insurance business in Nepal. The Act has made provision on following.

- Constitution and management of Insurance Board,
- Functions, duties and power of the Board,
- Registration of Insurer, cancellation of registration and liability,
- Provision relating to insurance agent, surveyor and broker,
- Fund and audit,
- Miscellaneous.

Entry Requirement: As per the Act, no person shall operate or cause to operate the insurance business without obtaining a certificate pursuant to this act .Further, the act has made the following documents as requirement for the registration as insurer.

- Memorandum and articles of association of the corporate body,
- Insurance business to be operated and its policies and terms and conditions,
- If life insurance business to be operated, documents displaying calculations of the premiums to be received in operating such business and liability,
- The documents regarding the methods of utilizing the amounts to be received from the insurance, and
- Other necessary documents as prescribed by the board.

Barriers to MFIs for the operation of microinsurance: Insurance Act is meant for the formal insurance business and has not made any provision for MFIs. The entry requirements (capital and licensing) are the major barriers for the MFIs to offer microinsurance services to deliver insurance services as a separate entity. Further, the act has prohibited providing insurance services using microinsurance words to these institutions other than registered insurer. As a result, many MFIs started to offered services having characteristics of insurance using different names. There are cases where insurance board has published notice occasionally in national news paper prohibiting other institutions to run the business using insurance words.

Recent Initiatives from Regulator: MFIs raised voices in different forums and meetings about this issue. In earlier years Insurance Board was not very much enthusiastic towards MFIs. On the other hands, there was no legal requirement for the formal insurance companies to operate their business among low income households like in other neighbouring countries. However, recently Insurance Board has realized the role of these services and have make some provisions regarding the delivery of microinsurance services through the formal insurance companies where MFIS can build up partnership relation with them. Thus, Insurance Board has been working to down scale insurance operation for the poor and disadvantaged groups.

Government Policy and Donors Interest: Microfinance policy (2063) includes microinsurance as one of the microfinance product. However, the policy is silent about how this service can be delivered among the ultra poor community. Similarly, Budget Speech of the GON 2068/69 has announced to initiate pilot microinsurance operation in ten districts of Nepal. There is high donor interest on addressing risk and vulnerability of the poor and disadvantages communities. For instance, Asian Development Bank (ADB) are designing has been working to design the inclusive financial sector development project including micro-insurance as one of the component. Work Bank (WB) has conducted a pilot study on crop insurance using Weather Index. United Nations Development Program (UNDP)/United Nations Capital Development Fund (UNCDF) is implementing enhancing access to financial services in collaboration with Nepal Rastra Bank.

4.1.4. Microfinance Institutions in Microinsurance

Nepalese MFIs comprises of Microfinance Development Banks (MFDBs) Financial Intermediary Non-Government Organizations (FI-NGOs), Savings and Credit Cooperatives (SCCs) and Small Farmers Cooperatives Ltd. (SFCLs). In addition, there are three wholesale microfinance arrangements namely Rural Self Reliance Fund (RSRF), Rural Microfinance Development Centre Ltd (RMDC) and Small Farmers Development Banks (SFDB).

Besides, different commercial banks, development banks and finance companies of Nepal also directly or indirectly are engaged on extending access to (micro) finance among the poor and disadvantaged groups. Almost all Nepalese MFIs are engaged on providing microinsurance services in different form and modalities either directly or in partnership with other mainstream microinsurance services providers.

Table 3: Microfinance Institutions on Microinsurance Operation

Category	Name of leading institutions
MFDB	All MFDBs are providing microinsurance,
FI-NGOs	Jeevan Bikas Samaj, Manushi
SCCs	BISCOL and other
Insurance companies	ALICO and Nirdhan Uthan Bank collaboration
	PRIME and Manushi collaboration
	NLIC and Jeevan Bikas Samaj collaboration
	NLGIC and BISCOL collaboration

Source: Field Survey 2011

It is evident from that table that besides financial service providers, there are some mainstream insurance service providers that have been involved on extending microinsurance services in partnership with financial services providers. Involvement of mainstream insurance operator in microinsurance sector can be considered to be the beginning of the larger process in Nepalese financial process.

4.1.5. Degree of Involvement

To start with Nepalese MFIs extended basic microfinance services such as savings and credit to their clients. With the increase in their scale of operation, increase in number of MFIs leading to competition and growing interest of their clients/members, they have started offering microinsurance products to their members. Protection of loans portfolio provided to clients, scope of generating additional funds, reducing financial burdens to next generation in the event of death of borrowing client/members and providing feeling of social protection are found to be the prime motivating factors for MFIs to diversify their services and expand their services by providing microinsurance services to their clients. In order to acquire in-depth understanding of microinsurance operation, survey of seven leading MFIs were done. These MFIs were: NUBL, DDBL, SLBBL, Manushi, BISCOL, DEPROSC NGO and CBBL. Basic features of their operation are discussed hereunder.

Scale and Type of Microinsurance Services

All most all MFIs have implemented welfare program in one or other way. Health insurance is done only by DEPROSC NGO in Dhading with the support of Save the Children and MIA. It is new program implemented from January 2011 in Dhading district. Chhimek has felt problem implementing livestock and other insurance program by MFI itself, it is planning to have partnership with other insurance companies in the long term. While BISCOL has implemented emergency fund scheme and other schemes like crop insurance, micro-guarantee scheme, life and shelter guarantee scheme and group relief scheme is not common among the MFI included in this research. Manushi implement micro-insurance in partnership with Prime Life Insurance, where Manushi acts as an insurance agent for Prime Life.

Objective is to upscale micro life insurance pilot products and streamline product delivery process as well as develop the capacity of Manushi to automate their system.

Table 4: Scale and Type of Microinsurance Services Offered by MFIs

S.N.	Name of MFI	Branches implementing remittance services	Type of Micro-insurance Scheme Implemented by MFI						
			Livestock insurance	Crop insurance	Micro-guarantee scheme	Life and shelter guarantee scheme	Group relief scheme	Emergency fund scheme	Microlife insurance
1	NUBL	93	Yes	No	No	No	No	No	Yes
2	DBBL	33	Yes	No	No	No	No	No	Yes
3	SLBBL	56	Yes	No	No	No	No	No	Yes
4	Manushi	9	No	No	No	No	No	No	Yes
5	BISCOL	4	No.	No	No	No	No	Yes	Yes
6	DEPROSC NGO	Health in one branch in Dhading, livestock in all branches	Yes	No	No	No	No	No	Yes
7	CBBL	50	Yes	No	No	No	No	No	Yes

Source: Field Survey 2011

Differences are observed in terms of their degree of involvement in microinsurance market across the MFIs covered under the study. Review of existing practices followed by NUBL, DDBL, SLBBL, Manushi and DEPROSC NGO indicates that they have made it mandatory to buy their insurance products should their clients wish to access lending services. In general, access to micro-insurance services extended by financial service providers has been linked with loan amount and at several cases these institutions had made upfront deductions from loan amount as insurance premium. As discussed already, microinsurance services are extended by MFIs itself in most of the cases and there are few instances of microinsurance scheme implemented in partnership with mainstream insurance service providers such as ALICO, PRIME, NLIC and NLGIC. Thus, in most cases, number of insurance client's is equal or almost equal to MFIs active loan clients and never more. Linkages of clients to microinsurance services have been instrumental to most financial services to maintain high portfolio quality.

In case of BISCOL and other credit cooperatives, practices are slightly different than MFIs. Generally, they offer insurance services in two forms. First, making insurance policy compulsory to all the members when s/he buys share and become member of SCCs. Second, offering insurance products, mainly in the form of funeral assistance, delivery allowance, etc. without charging any premium from the members. The field survey indicates that generally all members, both borrowing and non borrowing, are covered under microinsurance services offered by their concerned SCCs and this has ensured safety net among shareholders.

Operational Process

Table 5 outlines basic features of the operational process adopted by MFIs for implementing the microinsurance scheme. In general an individual should be the member of the MFI in order to be eligible for purchasing the insurance policy. Three method of fixing premium is applicable among MFIs covered in this research: (i) proportion of loan disbursed or outstanding loan balance, (ii) flat and (iii) linked to savings balance and contribution by concerned MFIs. Entire micro-insurance operation is embedded within micro-insurance operational system of the MFIs wherein centre meeting has been used as a venue for

insurance operation. The operational simplicity that prevails in the micro-insurance operation has been instrumental to operate micro-insurance in cost effective way. Administrative cost is insignificant in livestock and micro-life insurance while it is very high in case of health insurance scheme implemented by DEPROSC NGO.

Table 5: Basic Features of Microinsurance Schemes implemented by MFIs included in this Research

S.N.	Name of MFI	Premium fixation	Selling of policy	Means of premium collection	Administrative expenses
1	NUBL	Rs.7/- per thousand	all loan clients	Center meeting	Insignificant
2	DBBL	0.5% of loan disbursement	all loan clients	Center meeting	Insignificant
3	SLBBL	Rs.50/ 1st yr, Rs. 100 second year onward	all clients	Center meeting	Insignificant
4	Manushi	Rs.50/ 1st yr, Rs. 100 second year onward	all clients	Center meeting	Insignificant
5	BISCOL	5% of group savings plus equal amount contributed by MFI has created welfare fund 2 corer 97 lakhs. In addition to that partnership has been done with NLGIC	all clients in welfare fund in case of NLGIC only to loan clients	Center meeting	Insignificant
6	DEPROSC NGO	0.5% of loan disbursed in micro-life and Rs. 336/- per person per year in health insurance	All borrowers in case of microlife and voluntary in case of health insurance. Health insurance only in Dhading	Center meeting	Expensive
7	CBBL	1% of loan disbursement for all clients, 5% for livestock insurance	All borrowers in microlife and livestock loanees in livestock insurance	Center meeting	Insignificant

Source: Field Survey 2011

It is quite clear that micro-insurance schemes implemented by MFIs are simple, highly informal and very much integrated with their operational system which has been instrumental to ensure cost effectiveness on their operation.

4.1.6. Operational Modalities

Nepalese MFIs have offered microinsurance services in different forms using different models. There exist differences among MFIs in relation to using delivery models and operational mechanisms. Close scrutiny of business models for retail microinsurance operation in Nepal reveals the existence of five different business models of microinsurance operation that prevails in Nepalese microinsurance market. Table 4 provides an indicative overview of the delivering models of microinsurance along with leading MFIs using these models in the delivery of microinsurance services in Nepal.

Table 6: List of Microinsurance Models and Leading MFIs

Delivery Models	Leading MFIs
Community Based Model	SCCS and Multipurpose Cooperatives
Full service Model	MFDBs and FI-NGOs such as DBBL, SLBBL,CLBBL
Partner Agent Model	NUBL, BISCOL, MANUSI
Mutual Aid Model	NEFSCUN
Provider Model	Is in process of implementation

Source: Field Survey, 2011

Community Based Model

This model is formed with the members who are similar in terms of social and economic status. Members in this model are organized into groups who share common characteristics, who are owners and beneficiaries at the same time. It is characterized by participatory decisions making and voluntary membership and promotes solidarity, democracy and social cohesion. The model has potential to functions beyond insurance. SCCs and multi-purpose cooperatives in Nepal have used this model to offer the microinsurance services to their members. Field observation of their operation is characterized by simplified systems and procedures, minimum chances of moral hazards, adverse selection and asymmetric information. While, limited scale of operation, limited coverage and benefit package, low capacity of human resources are the major problems of this model.

Full Service Model

In this model, MFI offers more than one service to its members. Together with loans, MFIs also offer insurance as packaged service. Integration of insurance service with the credit offers the protection of lending portfolio and chances of default on payment of loan in case of death of client as well as protection to the family members from the burden of repayment of loan. This model has the leverage of making optimum utilization of existing infrastructure and network of existing situation. MFDBs such as DBBL, CLBBL, SLBBL and FI-NGOs such as Manushi, DEPROSC Nepal etc. have used this model of delivering microinsurance services to their clients.

Partner-Agent Model

As the name indicates, in this model MFIs undergo into a partnership agreement with the formal insurance service provider to cater microinsurance services to their clients. The mainstream insurance company and the intermediary organization jointly design, test and refine microinsurance products which will be backed by the market research tools. In the partnership agreement there is clear delineation of roles and obligations of the stakeholders involved in operating the scheme. In this type of partnership agreement, intermediary organization is responsible for marketing and selling of product where as mainstream insurance service providers is accountable to bear the risk and deliver the agreed benefit with the highest efficiency possible. In Nepal, this model has been implemented by (i) NUBL in partnership with Metro Life Alico, (ii) BISCOL with National Life and General Insurance Company and (iii) MANUSHI (FI-NGO) with Prime Life Insurance Company to offer microinsurance services to their clients/members using this model.

Mutual Aid Model

In Nepal, this model of delivering microinsurance service has been implemented by Nepal Federation of Savings and Credit Cooperative Unions Limited (NEFSCUN), the central federation of savings and credit cooperatives of Nepal. It is being implemented with the supports of NEFSCUN's development partners, wherein AGRITERRA, the Netherlands based farmer organization provides financial assistance and Microinsurance Association of Netherlands (MIAN) provides technical assistance to implement the programme. The model aims at offering the microinsurance products and services to the individual members of the SCCs affiliated with NEFSCUN through the use of their primary SCCs in the process of delivering microinsurance services. Currently, the scheme is being implemented among 62 Primary SCCs affiliated with NEFSCUN.

Provider Model

In this model, formal insurance companies provide microinsurance services to the low income households by their own network. Existing business practices of the formal insurance companies shows that, they have not entered in this segment so far due to high administrative cost, small policy amount and remoteness of rural setting. The recent change made by the Insurance Board of Nepal has opened space to enter them in this segment.

4.1.7. Strategies and Practices on Retail Microinsurance Operation

Nepalese MFIs have adopted mix of strategies and practices to streamline microinsurance as one of key element of microfinance services for the poor and disadvantaged groups ranging from making mandatory requirement to get membership (case of some SCCs) to adding the product and service features. Review of the current strategies and practices followed by the MFIs reveals that there are five broad strategies and practices followed by Nepalese MFIs on mainstreaming microinsurance operation in Nepal.

Table 7: Strategies and Practices Used by MFIs on delivery of Microinsurance Services

S.N.	Strategies	Explanation
1	Compulsory Strategy	Mandatory requirement of participating in insurance scheme to get the membership
2.	Free of Cost Strategy	Allocation of certain percentage of profit in separate fund Covering natural and accidental death of member and family from the reserves and other fund
3	Service packaging Strategy	Including insurance services in lending programme and charging additional fee
4.	Coverage Addition Strategy	Increasing the scope of coverage of risk Increasing benefit package and covering other members of the family
5.	Partnership Strategy	Partnering with mainstream insurance companies to deliver the microinsurance products to the clients/members.

Source: Field Survey, 2011

Compulsory Savings

Some MFIs have a policy to make participation in microinsurance service as a mandatory requirement of getting various services extended by them for their target market. As such, when a person becomes member of the MFI, s/he will automatically become member of microinsurance scheme. This way it is almost automatic and built-in or integrated in the service delivery packages of MFIs in question. This practice has been generally followed in SCCs and multipurpose cooperatives, where along with membership fee, saving deposit and others, members also pay the premium fixed by SCCs. It has resulted into their high degree of involvement in the microinsurance operation. However, members lose their voluntary choices and require paying additional fee though they are not very much interested to participate in the scheme.

Free of Cost Strategy

Free of cost strategy relates to offering safety net (insurance) to the member of MFI without charging additional fees to their clients. Evidences have shown that few MFIs, especially SCCs having good reserves and other funds position have offered microinsurance services such as funeral cost assistance, maternity allowance and other disasters risk packages without charging any additional fees/premium from the members. This provision has given the

feelings of additional benefit getting being the member of SCCs. However, members' loyalty and knowledge about the scheme is very low.

Service Package Strategy
Large number of MFIs in Nepal, especially MFDBs and FI-NGOs are using service packaging strategy for delivering microinsurance services to their clients. These MFIs charged certain percentage of loan amount as premium for the insurance service at the time of borrowing by their loan clients. This system has been followed in case of livestock loan and other productive loans. It covers the outstanding loan balances in case of death of livestock and the member.

Additional Risk Coverage Strategy
With the expansion of clients/members and improvement in the financial position, some MFIs have felt the additional risks to be considered for the safety as well as risk management strategies. In response to this realization, some MFIs have introduced additional mechanism for the coverage of death risk, funeral cost, death of the other family members and risk caused by the natural calamities. In order to cover those additional risks, these MFIs collect premium and charge fees which have been effective to cover the perceived risks.

Partnership Strategy
Very few MFIs in Nepal have established partnership relation with the formal insurance companies to deliver the microinsurance services to their members. Use of this strategy has created space to them on transferring risk to formal insurance company, offer competitive benefit package to their members through the use of their established network.

4.1.8. Comparative Analysis of Microinsurance Schemes

Nepalese MFIs are offering variety of microinsurance services in different forms and with the use of different names. There exist differences among them regarding to the scale of operation, services and benefit package, premium collection practices and the use of delivery channels across the category of MFIs. Typology of microinsurance services extended by Nepalese MFIs includes death relief schemes, borrowers' welfare fund, life and shelter protection schemes, livestock insurance, health insurance and crop insurance schemes.

Death Relief Scheme
These schemes are mainly implemented by SCCs and other subject wise cooperatives among their members. There are two bases for operating these schemes. First, charging certain amount as fee annually from the members to cover the death risk and funeral assistance of members and their family. Under second system, no additional fees are charged from the members. SCCs with sound reserve and earning capacity have created separate fund from where they provide certain benefit in the death of their members to the family members. In some instances, it is also observed that in addition to death risk, SCCs also cover risk caused by natural calamities such as flood, landslide, damaged caused by earth quake etc. SCCs running such schemes have covered all their members in the scheme either making it as compulsory requirement of membership or making the services available to all from the income /earning generated from them. Therefore, the degree of involvement of the members in the scheme is found equal /almost equal with the membership of the SCCs.

Borrowers' Welfare Fund

MFIs, mainly MFDBs and FI-NGOs in Nepalese microfinance sector have operated borrower's welfare fund/ credit protection scheme as microinsurance product linking with their lending programme. Under this system, certain percentage of the total loan amount taken by their clients is deducted from the loan amount to cover the risk of outstanding loan in the event of the death of client. The study uncovered that leading MFIS such as NUBL, DBBL, CLBBL and other FI-NGOs have operated these schemes. The schemes have also been operated in to forms. The first form includes operation by the MFIs themselves. In this system, the outstanding loans are covered from the separate fund collected as premium in case of death of members. Under second system, MFIs have established the partnership relation with formal insurance companies and the risks are covered by the insurance companies in case of death of clients.

Table 8: Scale and Typology of Microinsurance Services in Nepal

Typology of Microinsurance Schemes	MFIs	Scale of Operation	Coverage of Risk
Death Relief Schemes	SCCs	All members of the SCCs have been covered	Funeral assistance
Borrowers Welfare Fund	MFDBs, FI-NGOs	All members taking loan from MFIs	Outstanding loan plus some additional amount as funeral assistance
Life and Shelter Protection Schemes	Sawalamban Laghu Bitta Bank	All members participating in the microfinance programme of the bank	Death of clients/family members, natural calamities and maternity allowance
Livestock Insurance	MFDBs, FI-NGOs and SCCs	Members taking the loan for the purchase of livestock	Death of and infertility of livestock
Health Insurance	NUBL, DEPROSC Nepal and Some SCCs	Members participate in the health insurance schemes (Operated as pilot Programme)	Hospital admission, lab test, X-ray and transportation cost
Crop Insurance	ADBL	Implemented in few places as pilot programme	Crop failure and other

Source: Field Survey, 2011

Life and Shelter Protection Scheme

This scheme covers both death of client and his/ her family members as well as damaged caused by natural calamities. It is implemented by the Sawalamban Laghu Bitta Bank Ltd. among its clients. The scheme has been opened to all the members participating in the microfinance programme implemented by the bank. In addition to, above mentioned risk coverage, the scheme also pays maternity allowances upto two child birth. The, participation level of the members in this scheme is equal with the total members participated in the microfinance programme implemented by the bank.

Livestock Insurance Schemes

Livestock insurance has been implemented by the MFDBs, FI-NGOs and SCCs as well as diary cooperatives in Nepal. Like other schemes, it has been implemented in two forms. The first form its operation includes managed by the MFI itself. Where in certain percentage of the loan taken for the purchase of livestock is paid as premium. In the event of death of livestock, generally 75 % to 80 % of assessment value of livestock is paid as compensation. The risk covered ratio has been found different among the MFIs. Few SCCs, Dairy Cooperatives and CLBBL have implemented this scheme on their own. Second from of its

operation is linked with Deposit Insurance and Credit Guarantee Corporation (DICGC). Under this scheme, members borrowing for livestock require to pay 3% premium and 3% is subsidized by the government. If insured livestock dies, risks are covered by DICGC. MFDB such as NUBL and DBBL have implemented this scheme together with DICGC. The scale of operation of this scheme is limited with the number of clients taking the livestock loan.

Health Insurance Scheme

There are some MFIs promoting health insurance services in partnership with health service providers and international NGOs. The two leading MFIs offering health insurance scheme are NUBL and DEPROSC Nepal-the FI-NGO under the assistance of Save the Children (SCF) as a pilot programme in two district of Nepal. NUBL is implementing this scheme in Banke district by the name of "Sanjivani Samudayik Swasthya Surakcha Koss" and DEPROSC Nepal in Dhading district as the name of "Sauvagya Laghu Swasthya Surakchha Koss". These schemes have established the linkage with the major health care service providers and covers hospital admission, X-ray, laboratory test, transportation cost up to the specified limit. As the schemes have been implemented as the pilot programme, membership of the scheme is very limited as compare to other microinsurance services implemented by the same MFIs.

Crop Insurance Scheme

There are very few instances in Nepal crop insurance has been practiced. The study has found major to schemes piloted in this field. The scheme has been implemented by ADBL. As the scheme has been implemented on pilot basis, it is to be tested for full scale operation.

4.2 Strengths, Weaknesses, Opportunities and Challenges Analysis

4.2.1. Barriers to Commercialization

There are barriers to commercialization of microinsurance initiatives applied in Nepal. This study has identified two types of barriers to establish the business cases for microinsurance to cater the services of microfinance clients: general barriers and model related barriers that apply to all business models.

Generic Barriers

There are some generic challenges for the sustained growth of microinsurance schemes as social safety net measure for the poor. These challenges can be classified into three categories respectively as (i) technical challenges (ii) operational challenges and (iii) institutional challenges.

Technical challenges identified by the study include lack of specialized knowledge and capacity, weak risk assessment and pricing of insurance products and services. The operational issues include lack of business orientation and adoption of systematic product development process, lack of client's education and poor planning. Lastly, lack of enabling policy environment for the operation of microinsurance has been found as major barrier for the promotion of microinsurance in Nepal.

Microinsurance Service Delivery Models Specific Barriers

There are differences on barriers across modalities used in delivering microinsurance. These barriers are identified across few key elements related to operation and management of

microfinance modalities namely product development, pricing, promotion / marketing, risk management, human resource management/policy and regulatory environment. Table 9 outlines comprehensive overview of challenges inherent to each of the modalities used on delivering microinsurance services to microfinance clients.

Table 9: Challenges on Microinsurance Service Delivery Models

Key element of insurance product	Challenges Among the Delivery Modalities				
	Community Based Model	Full Service Model	Partner-Agent Model	Mutual Aid Model	Providers Model
Product Development	• Lack of adoption of systematic product development process	• Lack of Demand Lead and systematic product development process	• Lack of pro-poor product	• Lack of local need based product	• Lack of products/services targeting the poor and vulnerable households
Pricing	• Lack of scientific pricing base/Actuarial calculation	• Lack of scientific pricing base / actuarial calculation	• Lack of affordable premium	• Expensive and low acceptance	• Lack of affordable premium to poor communities
Promotion/ Marketing	• Development of promotional materials	• Development of promotional materials	• Client education	• Client education	• Client education
Human Resource Management	• Limited Capacity of human resources	• Limited capacity of human resources	• Limited capacity of human resources	• Development of human capacity	• Limited capacity of human resources
Risk Management	• Lack of Reinsurance	• Lack of Reinsurance	• Lack of risk spreading	• Lack of reinsurance	• Claim settlement-
Policy and Regulatory Environment	• Lack of enabling policy and regulatory environment	• Lack of enabling policy and regulatory environment	• Lack of enabling policy and regulatory environment	• Lack of enabling policy and regulatory environment	• Lack of enabling policy and regulatory environment

Source: Organizational Assessment and field Survey 2011

4.2.2. Microinsurance Sector

SWOT analysis of microinsurance sector has been undertaken based on observation, consultation and discussion held during FGD, stakeholders' regional workshop and one-to-one organized in different places to gather their perspectives on microinsurance operation.

Table 10: SWOT Analysis of Nepalese Microinsurance Sector

Dimensions	Explanation
Strengths	• Cost effective, timely, simplified operation and no additional burden • Linkage with loans and part of the service packages, • Minimize fraud, adverse selection and moral hazard • Limited or no asymmetric information • Efficiency on claim handling

Dimensions	Explanation
	• Increase on client consensus • Many service providers
Weaknesses	• Lack of market lead approach to product development, • Guided, top-down and lack of demand led approach, • Limited human capacity • Lack of client education and no effort on product promotion • Lack of separate business • Lack of reinsurance with minimum risk spreading • Limited risk coverage – issue related to vulnerability yet to be addressed
Opportunities	• Commercialization of microinsurance operation – scale up and formalization • High interest of the stakeholders – insurance service providers, regulators, • Linkage with addressing vulnerability mission of the government • Partnership between MFI and insurance service providers
Challenges	• Mainstreaming with regulatory framework • Business ownership • Meeting expectation of the clients • Wrong mission and intension of financial institutions • Reaching the poor and disadvantaged groups – bottom of the pyramid • Integrated versus stand-alone • Ensuring proper balance between MFI and insurance service providers – valuing complexities and related technical issues on insurance management • Enabling policy and regulatory environment • Client education on insurance service

4.2.3. Microinsurance Modalities

SWOC analysis of different model used in the delivery of microinsurance service have been carried out in the light of major dimensions involved in microinsurance operation that covers product development, pricing, claim administration, scale of operation, risk and financial management etc. There exist differences across the delivery models in terms of their strengths, weakness, opportunities and challenges.

Table 11: SWOC Analysis of Microinsurance Modalities

Models in operation	**Strengths**	**Weakness**	**Opportunities**	**Challenges**
Community Based Model	• Simplified product and benefit package, • Small premiums and simplified collection practices, • Minimum promotional cost	• Lack of market lead products and services, • Poor pricing/ lack of technical expertise, • Lack of business orientation,	• Use of established network, • Lack of presence of competitive institutions, • Minimization of promotional cost,	• Development of demand led products and services, • Setting up scientific pricing, • Developing institutional and

Models in operation	Strengths	Weakness	Opportunities	Challenges
	and effort, • Ownership feeling of programme among members, • Use of cost effective structure, • Efficient claim handling, • Minimum/No chance of moral hazards, adverse selection and asymmetric information	• Minimum care towards client education and promotion, • Weak risk assessment, • Concentration in limited geographical area • Lack of reinsurance	• Making members more responsive towards programme, • Linking with mainstream insurance service providers,	staffs capacity, • Spreading risks, • Achieving sustainability, • Institute re insurance
Full Service Model	• Packaging of services, • Easy in premium collection, • Use of existing network and structure, • Geographical diversification of risk and catastrophic, • Promptness in claim chandelling, • Moderate/large membership	• Lack of demand lead product/service package, • Limited technical capacity of human resources, • Lack of separate structure in place looking microinsurance operation, • Weak risk assessment and pricing, • Lack of re insurance	• Scope of expansion through the use of established network, • Partnering with mainstream insurance service providers, • Membership growth and expansion, • Fund generation in MFIs, • Security of loan portfolio	• Developing demand led product/services, • Setting scientific premium, • Institutional and staffs capacity building, • Creation of separate structure in place, • Unfair competition among the MFIs, • Including re insurance provision on insurance portfolio
Partner-Agent Model	• Competitive product, • Transfer of risk to formal and big insurance company, • Provision of technical expertise from specialized insurance company, • Diversified product and services,	• Limited use in practice, • Time consuming in membership and premium administration, • Delay in claim processing, • Chances of moral hazard, adverse selection and asymmetric information,	• Product diversification, • Benefit of large scale operation, • Expansion of risk coverage capacity, • Increase ability to offer competitive and demand led product and services	• Clarifying roles and responsibilities, • Equitable benefit sharing, • Controlling fraud, moral hazard and adverse selection, • Promptness in service delivery,
Mutual Aid Model	• Members owned and controlled, • Availability of technical backstopping support form donor, • Additional	• Donor influence and control, • Excessively dependence over donor, • High administrative cost,	• Limited opportunities	• Achieving sustainability in case donor stop financial and technical support, • Institute reinsurance

Models in operation	Strengths	Weakness	Opportunities	Challenges
	services with the use of established network, • Simplified product and process, • Promptness in claim handling	• Limited membership coverage, • Lack of re insurance, • Limited benefit package		
Providers Model	• Diversified products/services • Scientific premium calculation, • Diversification of risk, • Large scale operation, • Voluminous business	• Higher premium, • Concentration in urban and sub – urban areas, • Completed procedures and formalities, • Delay in claim handling, • Chances of fraud, moral hazard and adverse selection	• Development of demand lead product and services, • Benefit of large scale operation, • Expending frontier, • Scope of partnering with MFIs	• Attracting profitable business, • Down scaling the business in remote and rural areas, • Balancing between benefit package and cost

4.3 Capacity Development Need Assessment

4.3.1. Current Situation

In order to provide systematic overview of current situation on micro-insurance operation, current situations are explained at micro, meso and macro level.

Micro-level:
Purchase of micro-insurance policy voluntarily is quite rare. The range of products is rather narrow with dominating share of credit-life insurance. These products are weakly designed by staff with limited experience and no external support. Poor education and understanding of microinsurance within insurance operator lead to difficulties when designing effective products. If insurers do not understand the need of their clients, finances and cultures then design of effective products is seriously impeded. Combined with limited actuarial research and financial education product value becomes insignificant. Education for all members of micro level and low income policyholders is limited to some small exercises by insurers and service providers.

Meso Level
Despite that meso level players have important role to help orient macro level and stimulate micro level, meso level actors either do not exist or if they exist, their capacity is very low in Nepal. Current delivery channels require significant capacity building through significant investments in training in order to make microinsurance delivery work both effectively and cost-efficiently. Further, area of technology and infrastructure requires significant investments in human resources and technical solutions, both hardware and software, in order to make whole system more efficient. Raising knowledge and awareness among meso level players is very important as they play an active role in educating consumers and public as well as supporting insurers and lobbying policymakers.

Macro level

Nepalese economic and social environment is favorable for microinsurance development. Sector authorities are starting to facilitate microinsurance either directly (Beema Samiti) or indirectly (MOF). There is political will among various sector authorities to promote microinsurance as they recognize that majority of population lives in microinsurance segment and lacks effective risk protection. Integration of microinsurance in new regulation has been a centerpiece of a facilitative policy help prevent weak practices. Development of knowledge related to microinsurance among the authorities is a major challenge. Furthermore, educating public on microinsurance is a large task which requires a public-private approach. Current regulatory framework for insurance lacks microinsurance specific rules, for example, in terms of market conduct and product issues. As Bima Samitee is serious about its insurance market development role, its decision to include microinsurance into new regulations can be a huge step forward in doing away with barriers to microinsurance provision and facilitate an inclusive insurance sector. Beema Samitee lacks expertise and seeks support for this venture.

4.3.2. Area of Intervention

There are tremendous opportunities for commercialization of microinsurance in Nepal, but it will not happen automatically. There is a need to use the opportunities ahead in a more systematic way by creating better understanding of the key actions towards commercialization initiatives.

Table 12: Capacity Development towards Commercialization of Microinsurance in Nepal

Level	Entry Point	Short-term Support	Long-term Support
Micro	• Training • Research • Product development • Awareness creation	• Training on delivery channels and insurers • Product development support • Best practices study	• Identify and implement innovative marketing strategy • Assist on expansion of quality, quantity and type of delivery channels
Meso	• Market education • Technology and infrastructure • Training • Industry dialogue	• Establishment of micro-insurance training academy • Development and implementation of Management Information System • Establishment of micro-insurance information bureau.	• Sustainable operation of microinsurance training academy, MIS and information bureau
Macro	• Regulation development • Policy maker support • Insurance literacy • Stakeholder dialogue	• Microinsurance policy • Develop strategy for policy makers support • Integration with consumer protection policy framework.	• Support to Beema Samitee in terms of specific regulation for microinsurance and development of regulation and supervision system.
Donor	• Donor integration	• Improve donor coordination on microinsurance • Create transparency on donor contributions	• Alignment, harmonization and coordination on donor support on micro-insurance sector.

4.4 Way Forward

There exists business case in commercialization of microinsurance in Nepal. There exist possibilities that investment of capital and other resources in microinsurance sector are justified from the point of view of social and economic returns. This requires committed and systematic efforts towards commercialization.

4.4.1. Future Strategies

Review of operational practices, current state of art, demand from clients and existing policy environment reveals that there exists tremendous need and scope of scaling up microinsurance services among microfinance clients. To expand microinsurance services as a viable business in microfinance operation, certain strategic and interventions are required for sustained efforts towards commercialization. In view of this, future efforts should revolve around following.

Integration of microfinance clients into microinsurance services
Set of strategies is to be followed to integrate the microfinance clients in to microinsurance operation. Both backward and forward strategies are required to enable Nepalese MFIs to realize existing and emerging opportunities as well as overcome the challenges for their successful entry into microinsurance sector. It consists of both immediate and long term strategies among the Nepalese MFIs. Some strategies to be followed by the MFIs in this regards is outlined hereunder.

Understanding the Clients Need
Most of the MFIs in Nepal are delivering conventional products and services from the beginning of their operation. There is lack of study of clients changing needs and interest towards the microinsurance products. Therefore, they should undertake in depth study to understand the emerging needs of their clients. MFIs should understand that poor and disadvantaged groups demands types of microinsurance products that well of people demands with the differences of the scale of services.

Adoption of Systematic product development process
MFIs in Nepal lack the practices of following systematic process of product development. Their decision to implement microinsurance schemes is primarily driven by their own decision instead of the finding of market research and clients need. This practice should be avoided and the formal process of product development should be followed before implementing the schemes.

Strengthening organizational capacity
At present, MFIs have used existing human resources and the structure to deliver the microinsurance products and services. They have been involved in the implementation based on very limited knowledge, trainings and exposure. Their capacity should be enhanced on system administration, marketing, risk and financial management, book keeping and accounting, claim settlement etc. This should be included in the annual operational plan of the MFIs. In addition existing systems and procedures are to reviewed and make them members friendly. It should be started from the bottom level of their delivery network. Likewise, separate structure is to be created to look after microinsurance business.

Business orientation towards microinsurance
So far microinsurance has been found operated as a compliment service of microfinance and delivered in packaged, without much business orientation towards it. It should be treated as a feasible business and separate business plan for the microinsurance should be prepared, followed, monitored and evaluated.

Proper pricing and process simplification
Pricing systems adopted by the most of the MFIs lacks scientific basis of calculation. Such ad-hoc pricing system is to be replaced by the scientific calculation. In addition, procedural complications and bottlenecks are to be removed to make them transparent, simple and members friendly.

Educating clients
The need of microfinance services to the clients is to be better explained demonstrating the organizational efficiency terms of product development, pricing, process simplification and efficient claim handling system.

Building partnership with mainstream insurance service providers
Some MFIs are found more reluctant to establish partnership linkage with the main stream insurance service providers realizing that their business will transfer to them. They should understand the complexities and technicalities of insurance, as they are not expert institutions of this field and partner with main stream insurance service providers creating win–win situation. The existing delivery models should be replaced by the partner agent model.

Lobbing and advocacy
The problems created by existing regulatory framework for the development of microinsurance are to be discussed in larger perspective. MFIs should give the pressure to formulate supportive policy environment of this sector through lobbying and networking. Continuous dialogue and discussion should be held with the Insurance Board of Nepal for the promotion of this sector.

Addressing the Barriers

There are three major areas of barriers that are hindering the sustained efforts towards commercialization of microinsurance operation in Nepal. There is a need to focus future interventions in these three key areas.

Table 13: Nature and Types of Intervention for Commercialization of Microinsurance Service

Key Areas	**Nature and types of intervention**
Technical areas	• Improving risk assessment capacity • Using scientific base of premium calculation • Using technology in operation • Imparting technical skills to staffs through training, education
Operational areas	• Adoption of systematic product development process • Review the existing systems and procedures • Prepare separate business plan for microinsurance services • Enhancing operational skill of staffs through training • Building partnership relation with mainstream insurance service providers
Institutional/ Policy environment	• Pressurizing the insurance board to bring the conducive policies for the promotion of microinsurance business

4.4.2. Implementation Plan

Given the complexity involved, developing an implementation plan is critical for the commercialization of microinsurance initiatives. Pro-forma implementation plan for commercialization of micro-insurance scheme follows hereunder (Table 14).

Table 14: Implementation Plan for Commercialization of Microinsurance among MFIs

S.N.	Activities	Timeline
1	Support to promulgate microinsurance policy and related acts	12 months
2	Sensitization of MFIs towards implementing micro-insurance with mainstream insurance operators	12 months
3	Leveraging microinsurance with existing network of micro-insurance service providers	13 months onwards
4	Capacity development of human resources	12 months
5	Development of operational systems	13 months onwards
6	Consumer education and marketing	On-going
7	Product development and process re-engineering	12 months
8	Refinement and scale-up of specific insurance product	12 months

A discussion on each of these activities follows hereunder.

Policy Support: Commercialization of microinsurance involves more complicated initiatives requiring careful attention and expert technical inputs. There is therefore a need for an enabling policy environment for this initiative to happen. However, in Nepal there is no separate micro-insurance policy and micro-insurance service providers need to work within existing micro-insurance policy, acts and rules. External support for drafting micro-insurance policy and lobbying for promulgation separate policy and acts governing microinsurance has a significant role to play for the commercialization of microinsurance operation.

Sensitization of MFIs: Board, management and field staff of MFIs need to be sensitized on different aspects of commercialization of microinsurance and implications of different microinsurance modalities for their operation. They must be aware of crucial need to use risk layering using different forms of reinsurance to cover insurer from financial sustainability standpoint and the use of various outreach mechanism to reach poor household from equity point of view. They must feel the importance of commercializing their microinsurance operation for their viability and sustainability. Further, they must have understanding on pros and cons of different microinsurance modalities for their operation and future growth.

Leveraging microinsurance with existing network of insurance service providers: There exist a win-win situation with functional partnership between insurance schemes implemented by MFI is forged with insurance companies. In cognizance to this requirement, there is a need leverage microinsurance with existing network of insurance service providers. Outreach of microinsurance services for the poor and disadvantaged groups could be enhanced at a geometrical rate if mainstream insurance service providers utilize and build on the existing experiences and initiatives of the MFIs.

Capacity development of human resources: There are ranges of insurance schemes and modalities that differ in terms of complexities. While some microinsurance product types

such as credit life insurance (i.e. loan insurance) are more easily designed and implemented, implementation of other schemes like health insurance is more complicated. In order to address such a diversity of modalities and complexities involved on implementation, there is a need for human capacity development. This should be achieved by developing both fulltime and part-time staff through effective training in insurance marketing and servicing concepts.

Development of operational systems: Need to manage cash and risk on insurance operation requires large risk pool and well trained staff to address problem of asymmetric information, adverse selection and moral hazard inherent to insurance operation. There is a need to support both mainstream insurance service providers and MFIs for developing operational systems for improved efficiency, effectiveness and enhanced productivity. System thus developed should be able to track client information, define procedures for premium payments, claims and other services. Such a system could be either manual or use the technology.

Consumer education and marketing: There is a need to create demand for microinsurance product and it is important in view of the complexities involved on operating and managing microinsurance sector, absence of immediate benefits, predominant culture of working under quick-fix environment and inability to make calculative risk assessment. In other words, successful implementation of microinsurance requires strong and aggressive consumer education and marketing. There is however an ongoing challenge of explaining concept and benefits to the insurer. Consumer education and marketing can be done by using pictorial posters, local folk arts and street theatres, among others. In order to be more acceptable to people, microinsurance products should provide an opportunity for providing long term savings (endowment). This could provide incentives to more to buy insurance product.

Product Development / Process Re-engineering: There is a need to develop demand driven microinsurance product and enhance "ownership". Considering varied nature of risk that poor and disadvantaged groups are exposed to, there is a need to customize product development to suit their varying requirements. In this endeavors, processes/procedures need to be streamlined and simplified to facilitate easier access to insurance services by the poor and disadvantaged groups. Further, from supply side, there is a need to gather essential risk data, resulting in significant cost reduction in monitoring, transaction and enforcement. Eventually, cost advantages of the micro-insurance service providers should be translated into lower insurance premium which will eventually increase product demand.

Refinement and scale-up of specific insurance product: There are cases where some insurance scheme such as crop insurance and livestock insurance that has achieved reasonable level of outreach as a risk mitigation measures for the poor and disadvantaged groups[4]. These schemes have significant outreach under diverse environmental setting. Any future work on micro-insurance sector need to identify to refine and scale-up of crop insurance and livestock insurance as one of priority activities. Essence of refinement and scale-up should focus at formalizing these types of informal operation by linking them with insurance companies.

[4] Though health insurance scheme is implemented in Nepal, there scope and coverage is very much limited and the scheme must be further polished prior to scale-up of their operation. Though it has potential for addressing vulnerability of the poor, this scheme has a limited coverage due to lack of well developed heath service providers. The scheme is not ready for replication.

5. SUMMARY, CONCLUSIONS AND RECOMMEDNATIONS

This research aims at documenting current situation and explores prospects and potentials for commercialization of Nepalese microinsurance sector. Summary of major findings, conclusions and recommendations of this research follows hereunder.

5.1 Summary

Microinsurance has been implemented in different form and modalities by different services providers. There are five different types of microinsurance model namely full service, community based, mutual aid, partner agent and providers model implemented in Nepalese microinsurance market. Other microinsurance schemes implemented in Nepal are crop, livestock and health insurance. Crop insurance is being piloted by ADBL and yet to be tested for full scale operation. Livestock insurance is community based (milk operatives) and agency (DICGC – DDBL, NUBL, etc.) promoted and implemented by different agencies such as SFCLs and Milk Producers Cooperatives under the technical backstopping support of different integrated community development program with mixed success. In contrast, health insurance scheme is implemented by NIRDHAN and DEPROSC under the financial support of SC-USA, with encouraging early successes.

Insurance act and regulations governs microinsurance operation in Nepal. Microfinance policy 2063 includes microinsurance as one of the microfinance services. There is no separate policy and act to governing microinsurance operation in Nepal. Insurance Board has been working to down scale insurance operation for the poor and disadvantaged groups. Budget speech of the GON 2068/69 has announced to initiate pilot microinsurance operation in 10 districts of Nepal. There is high donor interest on addressing risk and vulnerability of the poor and disadvantaged groups for sustained poverty reduction.

Policy holders (clients) are satisfied with current process as it is transparent and possess very much simplified operation including claim handling. In some cases, clients lack full knowledge as they are paying premium but are not aware on the potential benefits of paying fees. The scheme has very much limited coverage. Policy holders expects if existing scheme integrate the features of endowment, automatic renewal system, diversify products and services and have access to insurance education.

There are specific reasons for low demand for insurance in spite of intense need. Suppliers have their own concerns, which help to explain why there have been so little efforts at market development. Consequently, the rural market is characterized by limited and inappropriate services, inadequate information and capacity gaps. There are challenges in product design, which has resulted in a mismatch between needs and standard products on offer. Efforts at product development / diversification have been limited.

Pricing, including willingness to pay and the availability of subsidies, influence the market. In the absence of a historical data base on claims, premium calculations are based on remote macro aggregates and overcautious margins. Building and sharing claims histories can help in aligning pricing decisions with actuarial calculations, thereby reducing prices. Difficulty in distribution is one of the most cited reasons for absence of rural insurance. The high costs of penetrating rural markets, combined with underutilization of available distribution channels, hinder the growth of rural insurance services. This adds to costs, both, managerial and

financial. Like inclusive credit, inclusive insurance is expected to be a "low ticket" business, requiring volumes for viability. Regarding mainstream insurance service providers, cumbersome and inappropriate procedures inhibit the development of this sector. Contrasting perspectives of the insured and the insurers, lead to low customization of products and low demand for what is available.

5.2 Conclusions

Existing microinsurance schemes are cost effective, timely, with simplified operation and no additional burden which is linked with loans and part of the service packages. These schemes minimize fraud, adverse selection and moral hazard with limited or no asymmetric information. The schemes are efficient on claim handling, increase on client consensus and existence of multiple service providers.

These schemes however lack of market lead approach to product development; guided, top-down and lack of demand led approach; limited human capacity; lack of client education and no effort on product promotion, separate business and reinsurance with minimum risk spreading. These schemes have limited risk coverage and issue related to vulnerability yet to be addressed.

There are several opportunities on existing schemes. There exist potentials for commercialization of microinsurance operation through scale up and formalization. There is high interest of the stakeholders (insurance service providers, regulators, etc.) and can be linked with addressing vulnerability mission of the government. Further, there exist possibilities for forging partnership between MFI and insurance service providers.

Challenges of existing schemes includes: mainstreaming with regulatory framework, business ownership, meeting expectation of the clients, wrong mission and intension of financial institutions, reaching the poor and disadvantaged groups (bottom of the pyramid), integrated versus stand-alone services, ensuring proper balance between savings and credit operation and insurance service providers – valuing complexities and related technical issues on insurance management, creating enabling policy and regulatory environment, and client education on insurance service.

Barriers to commercialization are related to technical (pricing, risk assessment), operational (capacity, claim handing), institutional capacity and policy related barrier (no separate microinsurance policy). These barriers are applicable across all types of microinsurance modalities implemented in Nepal.

5.3 Recommendations

5.3.1. Overall Recommendations

There is a need to commercialize microinsurance operation and there is no way that existing system be continued for sustainability. Government should bring the microinsurance policy and related act/rules in order to commercialize microinsurance operation. Mutual aid model currently implemented NEFSCUN in partnership with selected SCCs has limited potentials to expand; partner model is cost ineffective to penetrate in remote areas. Promotion of partner

agent model of microinsurance has been recommended to ensure outreach, viability and impact which are considered to be the essential triangle of microinsurance.

5.3.2. Specific Recommendations

The study has provided specific recommendation outlined in following table for the commercialization of microinsurance in Nepalese insurance market.

Table 15: Specific Recommendations of the Research

Agency	Key Recommendations
Government / Regulators	• Separate microinsurance policy • Enabling legal and regulatory framework • Imposing minimum coverage requirement to insurance service providers • Regular inspection and supervision
Mainstream insurance service providers	• Design of pro-poor insurance products • Product diversification • Adopt market led approach to new product development • Simplify claim handling and documentation requirements • Penetration to semi-urban and rural areas • Design partnership framework with MFIs
MFIs	• Understand complexities on microinsurance operations and realize implication of their operation for eventual continuity and sustainability • Revisit their insurance products and services • Staff capacity development - human resource development • Client education and awareness • Understand issues of vulnerability and insurance needs of clients • Include insurance operation as part of the operation
Client	• Readiness to buy full fee based insurance services • Issue of asymmetric information • Adverse selection and moral hazards

ANNEXES

ANNEX A: DATA COLLECTION TOOLS

Checklist 1: Institutional Survey Form

लघु वत्त संस्थाको नाम	:	
सम्पर्क पदा धकारिको नाम	:	
सम्पर्क फोन नं	:	
कारोवार गरेका जिल्लाहरु	:	
कारोवार शुरु गरेको बर्ष	:	
प्रदान गरेका वत्तिय सेवाहरू	:	लघु वचत लघु ऋण लघु वमा वप्रेषण
ग्राहक संख्या	:	
• लधु वचत गर्ने ग्राहक	:	
• लधु ऋण लने ग्राहक	:	
• लधु वमा गर्ने ग्राहक	:	
• वप्रेषण सेवा लने ग्राहक	:	

लघु वत्त संस्थाले संचालन गरेको लघु वमा सेवाको ववरण:

लघु वत्त संस्थाले कुन कुन क समको लधु वमा सेवा प्रदान गरेको छ (हरेक सेवाको वारेमा छोटकरिमा व्याख्या गर्ने)	
• पशु वमा	
• तरकारि बाली सुरक्षण	
• लघु सुरक्षण योजना	
• जीबन तथा आवास सुरक्षा योजना	
• समुहगत राहत कोष योजना	
• आपतका लन कोष योजना	
• लघु जीवन योजना	
•	
•	
लघु वमा नीति (आधारभूत वबरण उल्लेख गर्ने)	

सन्चालन पद्धति (पो ल स व क्र गर्ने तरिका, प्र मयम संकलन गर्ने माध्यम, क्षतिपुर्ति दिने प्रकृया, प्रसासनिक खर्च आदि)

लघु वमाको स्थिति:

ववरण	वमाको क सम			
वमाङ्क रकम				
प्र मयम दर				
क्षतिपूर्ति दर				

लघु वमाको उपलव्धिहरु

ववरण	वमाको क सम			
क सम (अनिवार्य वा ऐच्छिक)				
वमाको पो ल स संख्या				
व मत रकम				
प्र मयम संकलन रकम				
दाबी संख्या				
दाबी भुक्तानि रकम				

प्रसासनिक खर्च				

लघु वमा कार्यक्रम संचालन गर्न के के वाधा अडचनहरु र ति वाधा अडचनहरु हटाउन सुझावहरु:		
क्षेत्रहरु	वाधा अडचनहरुको स्थीति	वाधा अडचनहरु हटाउन सुझावहरु
नीतिगत		
नियमन		
कार्यान्वयन		
अन्य		

धन्यवाद

Checklist 2: For Microinsurance Policy Holder

A. General Information

Name of Client :	Sex : Male / Female	
Address: District: …… VDC: ……..……Word: …… Tole: ……		
Name of MFI: …… ……		
Date of Joining in Micro Insurance Scheme: ……		
Types of Scheme	Live stock	
	Life	
	Other (Please Specify the Name)	

B. Saving and Loan Operation in MFI

Saving products	Unit	Amount
Compulsory saving	Rs	
Personal Saving	Rs	
Loan Guarantee fund	Rs	
Group Saving	Rs	
Others (Please Specify below)	Rs	

C. Loan Operation in MFI (Over Last 3 Circles)

Loan Borrowing	Loan Repayment	Outstanding	Overdue

D. Participation in Micro Insurance Scheme

Products / Services	**Insured / Amount**	**Premium Rate**	**Coverage %**	**Remarks**
Live stock				
Crop				
Wealth Protection				
Health				
Term Insurance				
Other				

E. Mode of Premium Payments

S.N.	Products / Services	Mode of Payment
1	Live stock	
2	Crop	
3	Wealth Protection	
4	Health	
5	Term Insurance	
6	Other	

F. Perception About the Scheme

S.N.	Particular	Perception
1	Product coverage	
2	Premium Rates	
3	Coverage	
4	Membership Process	
5	Premium Collection	
6	Claim Settlement	
7	Others	

G. Expectations about Scheme

Please mention your expectation in relation to		
1	**Product related**	**Expectations**
1.1	Product types	
1.2	Coverage (Benefit Package)	
2	**Pricing related**	
2.1	Premium Rate	
2.2	Mode of Payment	
2.3	Collection procedure Practices	
3	**Claim Settlement**	
3.1	Documentation	
3.2	Verification	
3.3	Claim Processing	
3.4	Claim Handling	
3.5	Others	

Any Special Remarks:

Checklist 3: For Microinsurance Policy Holder Receiving Claims

A. General Information

Name of Respondent: ……	Sex: Male / Female
Address: District ……..… VDC ……..……Word, …… Tole:……	
Name of MFI: …… ……..	
Date of Joining in Micro Insurance Scheme: ……	

B. Participation in Micro insurance Scheme

Products / Service	**Unit**	**Amount**
Live stock	Rs	
Crop	Rs	
Wealth Protection	Rs	
Health	Rs	
Term Insurance	Rs	
Other	Rs	
Live stock	Rs	

C. Claim Received on:

Products/Services	**Insured / Amount**	**Claim Received**
Livestock		
Crop		
Wealth Protection		
Health		
Term Insurance		
Other		

D. Perception about Schemes

S.N.	**Particular**	**Perception**
1	Product coverage	
2	Premium Rates	
3	Coverage	
4	Membership Process	
5	Premium Collection	

6	Claim Settlement	
7	Others	

E. Areas of improvement

Areas		**Necessary improvements**
1	**Product related**	
1.1	Product types	
1.2	Coverage (Benefit Package)	
2	**Pricing related**	
2.1	Premium Rate	
2.2	Mode of Payment	
2.3	Collection procedure Practices	
3	**Claim Settlement**	
3.1	Documentation	
3.2	Verification	
3.3	Claim Processing	
3.4	Claim Handling	
3.5	Others	

Any Special Remarks:

ANNEX B: LIST OF THE PERSON MET

S.N.	Name of the Person	Designation	Name of the Institution
1.	Dr. Anil Raj Bhattarai	Director	Insurance Board
2	Mr. Shekhar Kumar Aryal	Spokesperson	Insurance Board
	Mr. Shriman Karki	Deputy Director	Insurance Board
3	Mr. Purna Thapa	Accountant	Insurance Board
4	Mr. Arun Basnet	Manager	American Life Insurance Company
5	Mr. Suresh Oli	Officer	Prime Life Insurance Company
6	Dr. Harihar Dev Panta	CEO	Nirdhan Uthan Bank
7	Mr. Ram Chandra Joshi	CEO	Chhimek Laghu Bitta Bikas Bank
8.	Mr. Ram Kumar Shrestha	CEO	Swalamban Laghu Bitta Bikas Bank
9	Mrs. Shova Bajracharya	Manager	MANUSHI
10	Mr. Pushpa Adhikari	Manager	Deprosc Laghu Bitta Bikas Bank
11	Mr. Hari Acharya	Manager	Deprosc Laghu Bitta Bikas Bank
12	MR. K.B. Lama	Manager	Bindhabasini Saving and Credit Cooperative
13	Mr. Yubaraj Bartaula	Account Officer	Deprosc Laghu Bitta Bikas Bank
14	Mr. Bimal Khanal	Branch Manager	NUBL
15	Mr. Prem Raj Joshi	Branch Manager	Chhimek Laghu Bitta Bikas Bank
16	Mr. Mani Kumar Aryal	CEO	Nerude Laghu Bitta Bikas Bank
17	Mr. Hem Kafle	Branch Manager	Deprosc Laghu Bitta Bikas Bank
18.	Miss. Surmila Shakya	Programme Coordinator	Save the Childern, Nepal
19	Mrs. Bishwa Rattna Pun	Programme Coordinator	Save the Childern, Nepal
20.	Mr. Dinesh Dangol	Field Assistant	Deprosc Laghubitta Bikas Bank, Branch Office ,Banepa
21.	Mr. Purna Paudel	Branch Manager	DEPROSC Nepal
22.	Mrs. Sangita Mishra	Facilitator	DEPROSC Nepal
23	Miss. Shusila Acharya	Field Supervisor	DEPROSC Nepal
24	Mr. Gopi Lamsal	Manager	Sanakisan Krishi Sahakari Sanstha
25	Mr. Narayan Adhikari	Officer	-
26	Ms. Sarala Regmi	Manager	Ujjal Mahila Cooperative
27	Mr. Hira Gurung	Manager	Annapurna Cooperative
28	Mr. Hom Nath	Manager	Padampur Cooperative
29	Mr. Hem Kafle	Division Chief	DD Bank
30	Mr. Hari Paudel	Credit Officer	Alpine Development Bank
31	Mr. Eak Narayan Paudel	Manager	Amrit Dhara Cooperative
32	Mr. Rajendra Koirala	Manager	Aparna Cooperative
33	Mr.Dorna Prasad Lamichane	Manager	Suracchit Cooperative
34	Mr. Pujan Koirala	Manager	Hansa Cooperative
35	Mr. Roj Nath Pathak	Manager	Mirga Cooperative
36	Mr. Nabin Sapkota	Manager	Kisan Cooperative
37	Ms. Bhagabati Paudel	Manager	Pragati Cooperative

Annex C: List of Participants of Focus Group Discussion

S.N.	Name of the Person	Designation	Name of Centre
1	Mishri Shrestha	Coordinator	Bashuki Mahila Saving Group, Kavre
2	Sunmaya Shrestha	Member	Bashuki Mahila Saving Group
3	Chinimaya Shrestha	Member	Bashuki Mahila Saving Group
4	Maiya Shrestha	Member	Bashuki Mahila Saving Group
5	Janaki Shrestha	Member	Bashuki Mahila Saving Group
6	Nilam Shrestha	Member	Bashuki Mahila Saving Group
7	Mina Shrestha	Member	Bashuki Mahila Saving Group
8	Masini Shrestha	Member	Bashuki Mahila Saving Group
9	Tej Kumari Shrestha	Member	Bashuki Mahila Saving Group
10	Surya Maya Shrestha	Member	Bashuki Mahila Saving Group
11	Goma Shrestha	Member	Bashuki Mahila Saving Group
12	Durga Maya Shrestha	Member	Bashuki Mahila Saving Group
13	Nanu Shrestha	Member	Bashuki Mahila Saving Group
14	Mishri Shrestha	Member	Bashuki Mahila Saving Group
15	Purna Kumari Shrestha	Member	Bashuki Mahila Saving Group
16	Goma Devi shrestha	Member	Bashuki Mahila Saving Group
17	Gan Kumari Shrestha	Member	Bashuki Mahila Saving Group
18	Dhan Maya Shrestha	Member	Bashuki Mahila Saving Group
19	Gita Shrestha	Member	Bashuki Mahila Saving Group
20	Shanti Khatri	Member	Bashuki Mahila Saving Group
21	Kistimaya Shrestha	Member	Bashuki Mahila Saving Group
22	Laxmi Shrestha	Member	Bashuki Mahila Saving Group
23	Krishan Devi Shrestha	Member	Bashuki Mahila Saving Group
24	Manju Shrestha	Member	Bashuki Mahila Saving Group
25	Buddha Laxmi Shesrtha	Member	Bashuki Mahila Saving Group
26	Maya Shestha	Member	Bashuki Mahila Saving Group
27	Maya Shrestha	Member	Bashuki Mahila Saving Group
28	Roshani Shrestha	Member	Bashuki Mahila Saving Group
29	Shova Giri	Centre Chief	Karagari Centre, DD Bank, Kavre
30	Ambika B.K.	Member	Karagari Centre, DD Bank, Kavre
31	Parbati Shrestha	Member	Karagari Centre, DD Bank, Kavre
32	Ramai B.K.	Member	Karagari Centre, DD Bank, Kavre
33	Durga Bolakhe	Member	Karagari Centre, DD Bank, Kavre
34	Laxmi Tamang	Member	Karagari Centre, DD Bank, Kavre
35	Bimala B.K.	Member	Karagari Centre, DD Bank, Kavre
36	Roma B.K.	Member	Karagari Centre, DD Bank, Kavre
37	Shanti Tolunga	Member	Karagari Centre, DD Bank, Kavre
38	Samita B.K.	Member	Karagari Centre, DD Bank, Kavre
39	Manju Mijar	Centre Chief	Tinpiple Centre, DD Bank, Kavre
40	Kamal Mijar	Member	Tinpiple Centre, DD Bank, Kavre
41	Tara Mijar	Member	Tinpiple Centre, DD Bank, Kavre
42	Sukumai Mijar	Member	Tinpiple Centre, DD Bank, Kavre
43	Santa Maya Mijar	Member	Tinpiple Centre, DD Bank, Kavre
44	Ambika Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
45	Maya Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
46	Sanumaya Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
47	Mangal Kumari Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
48	Kamal Mijar	Member	Tinpiple Centre, DD Bank, Kavre
49	Chandra Maya Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
50	Manju Korala	Member	Tinpiple Centre, DD Bank, Kavre
51	Suntali Koirala	Member	Tinpiple Centre, DD Bank, Kavre
52	Kanchhi Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
53	Sabitri Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
54	Mangali shrestha	Member	Tinpiple Centre, DD Bank, Kavre

S.N.	Name of the Person	Designation	Name of Centre
55	Bacchali Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
56	Dudhumai Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
57	Pamphamaya Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
58	Setimaya Shrestha	Member	Tinpiple Centre, DD Bank, Kavre
59	Kalika Mahato	Centre Chief	Khairahai Centre, NUBL, Chitwan
60	Busani Mahato	Member	Khairahai Centre, NUBL, Chitwan
61	Burani Mahato	Member	Khairahai Centre, NUBL, Chitwan
62	Jhamkaliya Tharuni	Member	Khairahai Centre, NUBL, Chitwan
63	Mina Chaudhary	Member	Khairahai Centre, NUBL, Chitwan
64	Chandra Joti Chaudhari	Member	Khairahai Centre, NUBL, Chitwan
65	Sita Mahato	Member	Khairahai Centre, NUBL, Chitwan
66	Yesani Kumari Mahato	Member	Khairahai Centre, NUBL, Chitwan
67	Phohari Mahato	Member	Khairahai Centre, NUBL, Chitwan
68	Sita Kumari Chaudhary	Member	Khairahai Centre, NUBL, Chitwan
69	Sauni Devi Chaudhary	Member	Khairahai Centre, NUBL, Chitwan
70	Sova Mahato	Member	Khairahai Centre, NUBL, Chitwan
71	Tuhari Chaudhary	Member	Khairahai Centre, NUBL, Chitwan
72	Dasiya Mahato	Member	Khairahai Centre, NUBL, Chitwan
73	Ramita Chaudhary	Member	Khairahai Centre, NUBL, Chitwan
74	Mannu Chaudhary	Member	Khairahai Centre, NUBL, Chitwan
75	Sova Chaudhary	Member	Khairahai Centre, NUBL, Chitwan
76	Maya Mahato	Member	Khairahai Centre, NUBL, Chitwan
77	Surji Tharuni	Member	Khairahai Centre, NUBL, Chitwan
78	Phohari Tharuni	Member	Khairahai Centre, NUBL, Chitwan
79	Bikas Kumari Chaudhary	Member	Khairahai Centre, NUBL, Chitwan
80	Susmita Chaudhary	Member	Khairahai Centre, NUBL, Chitwan
81	Indira Mahato	Member	Khairahai Centre, NUBL, Chitwan
82	Manjita Pathak	Member	Khairahai Centre, NUBL, Chitwan
83	Kamala Kumari Tamang	Member	Khairahai Centre, NUBL, Chitwan
84	Lina Chaudhary	Member	Khairahai Centre, NUBL, Chitwan
85	Gita Paudel	Centre Chief	Panchhakanya Centre, CLBB, Chitwan
86	Krishna Maya Kayastha	Member	Panchhakanya Centre, CLBB, Chitwan
87	Santi Maya Shrestha	Member	Panchhakanya Centre, CLBB, Chitwan
88	Som Maya Bhujel	Member	Panchhakanya Centre, CLBB, Chitwan
89	Maya Dangol	Member	Panchhakanya Centre, CLBB, Chitwan
90	Padam Maya	Member	Panchhakanya Centre, CLBB, Chitwan
91	Buddha Laxmi	Member	Panchhakanya Centre, CLBB, Chitwan
92	Anju Paudel	Member	Panchhakanya Centre, CLBB, Chitwan
93	Sita Paudel	Member	Panchhakanya Centre, CLBB, Chitwan
94	Chin Maya Paudel	Member	Panchhakanya Centre, CLBB, Chitwan
95	Kamal Kumari	Member	Panchhakanya Centre, CLBB, Chitwan
96	Ram Maya Shrestaha	Member	Panchhakanya Centre, CLBB, Chitwan
97	Nanda Maya Shrestha	Member	Panchhakanya Centre, CLBB, Chitwan
98	Jaya Kala Poudel	Member	Panchhakanya Centre, CLBB, Chitwan
99	Bishnu Maya Lama	Member	Panchhakanya Centre, CLBB, Chitwan
100	Bishnu Kumari Sapkota	Member	Panchhakanya Centre, CLBB, Chitwan
101	Sujita Dangol	Member	Panchhakanya Centre, CLBB, Chitwan
102	Chameli Kumari Magar	Member	Panchhakanya Centre, CLBB, Chitwan
103	Sita Devi Karki	Member	Panchhakanya Centre, CLBB, Chitwan
104	Usha Shrestha	Member	Panchhakanya Centre, CLBB, Chitwan
105	Durga Khanal	Member	Panchhakanya Centre, CLBB, Chitwan
106	Som maya Shrestha	Member	Panchhakanya Centre, CLBB, Chitwan
107	Apsara Basnet	Member	Panchhakanya Centre, CLBB, Chitwan
108	Masina Shrestah	Member	Panchhakanya Centre, CLBB, Chitwan
109	Dipa Darji	Member	Panchhakanya Centre, CLBB, Chitwan

S.N.	Name of the Person	Designation	Name of Centre
110	Padam Maya Rimal	Member	Charaudi Centre, DEPROSC, Dhading
111	SukaMaya Thapa	Member	Charaudi Centre, DEPROSC, Dhading
112	Rana Maya Magar	Member	Charaudi Centre, DEPROSC, Dhading
113	Nisha Silwal	Member	Charaudi Centre, DEPROSC, Dhading
114	Ranju shrestha	Member	Charaudi Centre, DEPROSC, Dhading
115	Samjhana Basnet	Member	Charaudi Centre, DEPROSC, Dhading
116	Samjhana Chepang	Member	Charaudi Centre, DEPROSC, Dhading
117	Suka Maya Shrestha	Member	Charaudi Centre, DEPROSC, Dhading
118	Lucky Shrestaha	Member	Charaudi Centre, DEPROSC, Dhading
119	Niru Gauli	Member	Charaudi Centre, DEPROSC, Dhading
120	Jarina Miya	Member	Charaudi Centre, DEPROSC, Dhading

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