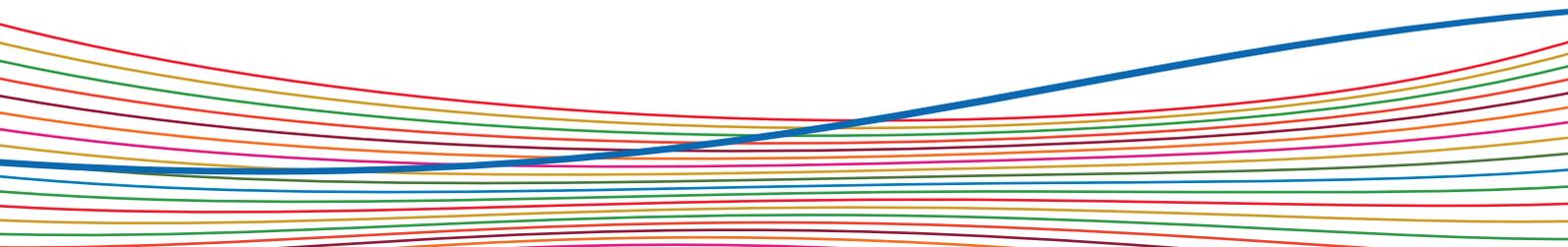




UNDP Insurance
and Risk Finance
Facility



Inclusive insurance and risk financing in Nepal Snapshot and way forward 2024



Why this report ?

This report summarizes the key findings of an inclusive insurance and disaster risk finance country diagnostic carried out by the UNDP's Insurance and Risk Finance Facility (IRFF) and UNDP Nepal. The objective of this summary report is to present a high-level overview of the following information for Nepal:

1

Key risks,
especially
climate risks

2

The current
state of
**inclusive
insurance**

3

The current
state of
**disaster risk
finance**

4

**Recommendations
to advance** inclusive
insurance, disaster risk
finance and overall
development.

This summary is a starting point for discussion and collaborative action planning on inclusive insurance and disaster risk finance between UNDP and critical stakeholders, including the insurance sector, government agencies and other development sector actors.

IRFF goals

Impacts: Reduced vulnerability, enhanced resilience of countries and communities and strengthened prospects for sustainable development.

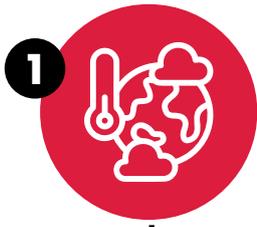
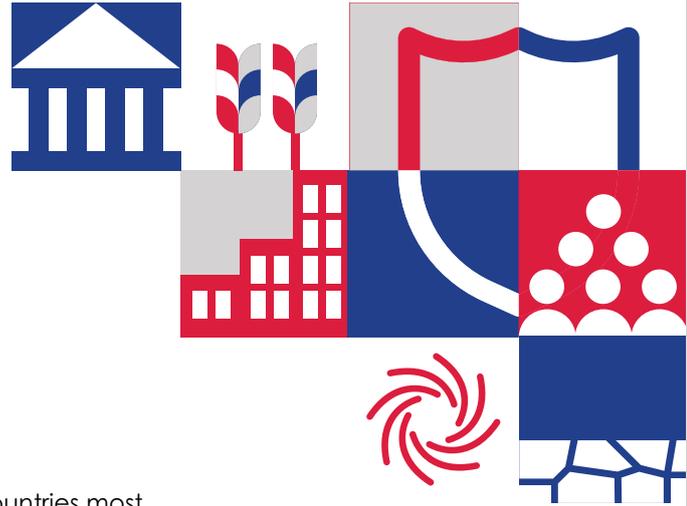
Outcomes: Country and community long-term resilience improved by development and delivery of integrated insurance, risk finance and investment solutions, from products, tools and services all the way leading to market transformation.

Contact IRFF for questions:

If you wish to discuss the findings and recommendations of this report, reach out to:

irff@undp.org

Key messages



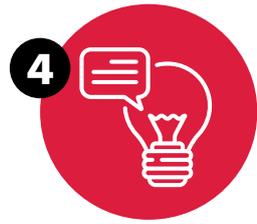
Risks: Nepal is one of the top ten countries most affected by climate change. Key hazards include floods, landslides, earthquakes and drought.



Inclusive insurance: The Government of Nepal (GoN) has shown a continued commitment to inclusive insurance, as evidenced by recent legal instruments, including Insurance Act 2079 (2022), which contains several microinsurance-related provisions, as well as the Microinsurance Directive issued in April 2023. Inclusive insurance growth in Nepal is driven largely by microinsurance, particularly credit life microinsurance products. GoN subsidizes agriculture insurance through its Crop and Livestock Insurance programme. Low awareness, lack of understanding of insurance and data gaps remain significant challenges for inclusive insurance development in Nepal.



Disaster risk finance: Policy and legal frameworks on disaster risk finance (DRF) have been developed, including a national DRF Strategy and accompanying DRF National Strategy Implementation Plan. Currently, the main DRF instruments in Nepal include ex-ante budget allocations and contingent credit, as well as ex-post/post-disaster budget adjustments and humanitarian appeals.



Key recommendations: To foster inclusive insurance development, support should be provided to continue the development of the Microinsurance Directive, expand distribution channels, enhance industry capacity, conduct demand-side research and promote awareness among the inclusive insurance market. To improve disaster risk financing, capacity-building and enhanced coordination should be used to strengthen DRF efforts, funds management should be standardized and gaps in risk assessment should be addressed.

Nepal's development and risk profile

Key macroeconomic and development indicators

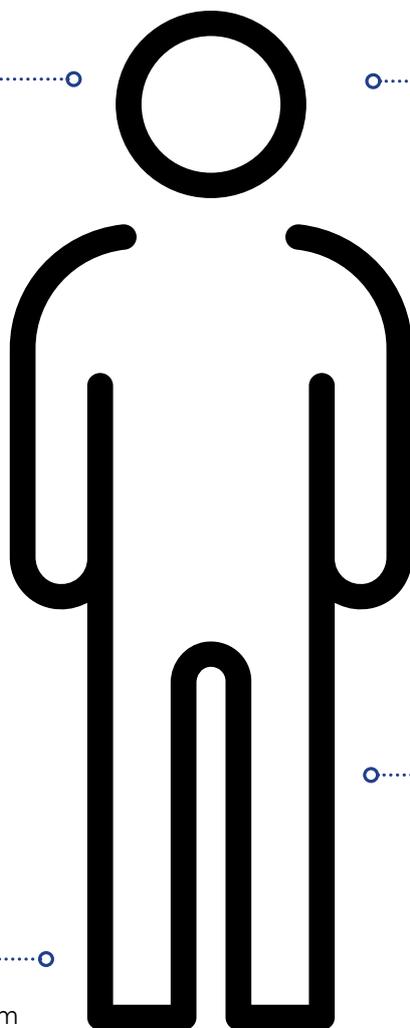


79% of Nepal's 29 million people live in rural areas, but urbanization is increasing (from 13% of the population in 2000 to 21% in 2021).¹



4.9% average GDP growth was achieved between 2009 and 2019 and Nepal became a lower-middle-income country in 2020.² Nepal is still classified as a Least Developed Country (LDC) but is projected to graduate from this category in 2026.³

52.3% of GDP in 2022 came from services (including tourism),⁴ while 21.1% came from agriculture.⁵ Agriculture accounts for 62% of total employment.⁶



15.1% of the population lived below the national poverty line in 2022/2023,⁷ significantly down from 42% in 1996.⁸

37% of Nepalis used fixed broadband internet as of January 2023,⁹ while 55.4% (unique subscribers) used internet-enabled mobile phones in 2020.¹⁰ Nepal has made progress towards becoming a knowledge and information-based society, through the GoN's 2015 Information and Communications Technology (ICT) Plan and corresponding 2019 Digital Nepal Framework.¹¹ However, a gender gap remains: in 2019, significantly fewer women (27%) used the internet than men (41%).¹²

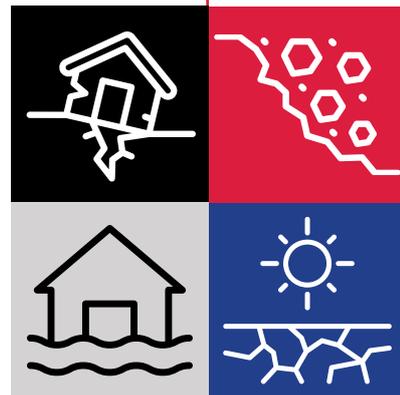
105 is Nepal's rank in the Global Gender Gap Index, out of 149 countries.¹³ The country has a persistent gender wage gap, women are less likely than men to own land and gender-based violence (GBV) is the leading cause of violence-related deaths.¹⁴

Geographic context:

Nepal is a landlocked country between India and China. Though its terrain is generally mountainous, Nepal has a diverse topography and climatic conditions, from the high-altitude, high Himalayan region in the north to the low-lying plains of the Terai region in the south.¹⁵ Average temperatures vary from 0°C and below in the highest mountains to over 24°C in the south.¹⁶ Nepal is also located at the subduction of the Indian and Eurasian (Tibetan) tectonic plates, which is responsible for frequent and severe earthquakes in the region.

Hazard context:

Nepal is the world's 10th most affected country by climate change, according to the Global Climate Risk Index.¹⁷ The country ranks 131st out of 192 countries in the WorldRiskIndex¹⁸ (with 1 being highest risk). In the 2020 Notre Dame Global Adaptation Initiative (ND-GAIN) Index, it ranks 126th out of 181 countries (181 being most vulnerable).¹⁹



Key risks and hazards

Earthquakes

Nepal is situated in a seismically active zone and so faces significant earthquake risks. The country has a history of major earthquakes, including the devastating 2015 earthquake, which claimed the lives of approximately 9,000 people and resulted in economic losses amounting to around one-third of GDP.²¹ Between 1980 and 2020, just 5 major earthquakes affected more than 6 million individuals.²²

Aon's 2020 Impact Forecasting, including a fully probabilistic earthquake model, estimates that the GoN carries a contingent liability for earthquake events equivalent to 30% of all disaster losses.²³

Cumulative disaster damages (1980 – 2020):*
US\$5.5 billion

Drought

Due to climate change, droughts are an increasing threat, particularly in the western Terai plains. Between 1980 and 2020, 500,000 people were affected by droughts.²⁵

Cumulative disaster damages (1980 – 2020):*
No data available



Fires and road accidents are significant non-natural hazards that occur frequently in Nepal.²⁴ Between 2017 and 2018, Nepal experienced 3,973 major fire incidents, resulting in estimated losses valued at around \$48 million.²⁷ For the same period, the Traffic Directorate of Nepal's Police Headquarters recorded 5,557 lives lost due to road traffic-related accidents, as well as 28,300 injuries and 20,982 damaged vehicles.²⁸ Nepal's sizeable migrant population, predominantly in India, Qatar, Saudi Arabia and the United Arab Emirates, are at risk of extreme temperatures in those host countries.²⁹

Landslides

Landslides happen regularly, as a result of rapid snowmelt and heavy rainfall. Between 1980 and 2020, 21 major landslides affected about 376,000 people.²⁴

Cumulative disaster damages (1980 – 2020):*
\$15 million

Floods

Floods in Nepal are caused by various factors, including rapid snow and ice melt in the mountains, monsoon rains between June and September and glacial lake outburst floods (GLOFS). There were 47 major floods between 1980 and 2020, affecting about 5.7 million people. unavailable.²⁰

Cumulative disaster damages (1980 – 2020):*
\$1.3 billion

* CRED, EM-DAT: The International Disaster Database. Available at <https://www.emdat.be/>.

Inclusive insurance:³⁰ Status

Enabling environment³¹

Highlights from the enabling environment for inclusive insurance in Nepal



Stakeholders

Nepal Insurance Authority (NIA)

- NIA, formerly Beema Samiti, is Nepal's official insurance regulatory authority, under the Ministry of Finance (MoF). It is dedicated to ensuring fairness and competitiveness in the insurance industry.
- NIA is a founding member of the [International Association of Insurance Supervisors \(IAIS\)](#) and has demonstrated a commitment to creating an enabling environment for inclusive insurance, particularly by promoting microinsurance development through various partnerships over the last decade.
- NIA is currently collaborating with the World Bank and Toronto Centre to move towards risk-based capital requirements and implement a framework for [risk-based supervision](#).³³

Insurance Institute of Nepal (IIN)

- IIN was established in 2019 and serves as Nepal's main insurance training institution, providing training to professionals within the insurance sector and for banking and financial institutions. NIA mandates that insurers allocate 2% of their expenditure to training in order to uphold high training standards across the industry.
- IIN offers a range of courses, and though training on inclusive insurance is limited, IIN plans to update its training based on the new [Microinsurance Directive \(2023\)](#).
- IIN maintains an active Memorandum of Understanding with the Insurance Institute of India.³⁴

Nepal Insurers' Association and Life Insurance Association

- Nepal Insurers' Association is a key entity within the insurance sector, representing the interests and concerns of non-life insurance companies in the market. In 2017, Nepal Insurers Association collaborated with the Nepal Microfinance Bankers Association (NMBA) to develop a microinsurance pool for the distribution of non-life microinsurance products through cooperatives and microfinance institutions (MFIs). The scheme was discontinued following the COVID-19 pandemic and its associated losses.³²
- The Life Insurance Association represents the interests and concerns of the life insurance companies in Nepal.

Nepal Rastra Bank (NRB)

- NRB, the central bank of Nepal, was established in 1956 and revised its objectives under the [Nepal Rastra Bank Act 2058 \(2002\)](#). This review focused on monetary policies, financial service accessibility, public trust and payment system development.
- In 2017, NRB banned banks from selling insurance products, except for credit-linked products sold through banking and financial institutions (BFIs), limiting a potential key channel for inclusive insurance distribution.
- NRB partnered with the United Nations Capital Development Fund (UNCDF) to develop the [Making Access Possible \(MAP\) Nepal Financial Inclusion Action Plan](#), aiming to identify barriers and recommendations for improved financial inclusion in Nepal.

Actuarial profession

Nepal has an active actuarial society and university programme, but even so, there is a lack of qualified actuaries in the market. The majority of actuarial graduates work in life insurance due to limited opportunities in non-life. There is significant outsourcing of the "appointed actuary" function.

Ministry of Finance (MoF)

MoF plays a central role in Nepal's financial governance, formulating and managing fiscal policies and economic strategies. Among other roles, MoF is tasked with the development and implementation of the annual budget, allocating resources, defining priorities and outlining fiscal policies to support various sectors, including policy, rules, standards and regulations related to insurance.

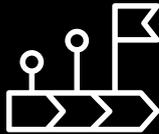
Insurance Acts

[Insurance Act 2079 \(2022\)](#),³⁵ in effect from November 2022, replaces [Insurance Act 2049 \(1992\)](#). Relevant key provisions in the new Act focus on poverty alleviation and expanding insurance access, introducing microinsurance (Section 8) and insurance aggregators (Section 11), and embracing the Proportionality Principle³⁶ for efficiency.³⁷



Financial education initiatives

Nepal has several financial education initiatives aimed at promoting financial literacy and inclusion, including NRB's financial inclusion and literacy programmes, which often target marginalized and underserved communities. The GoN, through NRB and other agencies, also promotes financial inclusion and literacy through initiatives such as the MAP programme.⁴¹



Inclusive insurance related regulations

Under Insurance Act 2079, provisions related to inclusive insurance include:

- **Microinsurance (Section 8):**
 - Insurers are mandated³⁸ to engage in microinsurance, defined as products that target poor, low-income households and marginalized communities (at this time, it is unclear how this will be operationalized in practice after the establishment of new microinsurance companies)
 - The option to establish dedicated microinsurance companies has been made available
 - Written agreements are required before assigning insurance agents
 - 0.5% annual insurance premium deposit is to be paid as an insurance regulatory fee (for the Insurance Development Fund, which extends access to insurance to economically disadvantaged citizens).
- **Insurance aggregators (Section 11):**
 - Insurance aggregators are required to be licensed by NIA for a 3-year duration.

In addition, NIA issued a new **Microinsurance Directive in April 2023**³⁹ that targets microinsurance companies, as well as allows commercial insurers to offer microinsurance products. A more comprehensive directive is expected to be issued at a later stage.

- Highlights from the April 2023 Directive include:
 - Categorization of life and non-life products
 - The formation of a committee for product approval with representatives from NIA, NRB, insurers and MFIs
 - Maximum sum assured for life and non-life products, set at NPR 500,000 (\$3,735) and NPR 5 million (\$37,350)⁴⁰
 - Authorization for individuals and institutions to operate as agents, a role that has been expanded (such as in enrolment and premium collection)
 - A 21-day claims settlement period upon receiving all necessary documents
 - No specific mention of agriculture microinsurance.

National Financial Inclusion Roadmap and Action Plan (2017–2030)

The National Financial Inclusion Roadmap (2017–2030) and the corresponding [Nepal Financial Inclusion Action Plan](#) (approved in 2017) were developed out of the findings from the 2016 MAP diagnostic study (updated by the International Finance Corporation and UNCDF in the [Nepal Financial Inclusion Report 2023](#)). The Action Plan outlines six areas for implementation, including "Priority 3: Bolster risk mitigation capabilities", with the objective of improving people's capabilities to cope with risk events that have the potential to cause significant impact on current and future financial situations.

Supply-side snapshot

Overall insurance coverage (traditional and inclusive): Fast facts

15 life insurers, 15 non-life insurers, 2 reinsurers and 4 stand-alone microinsurance companies (with plans to issue 3 additional microinsurance licences) were active in Nepal's insurance industry in early 2023.⁴²

3.6% insurance penetration, measured as gross written premiums (GWP) as a percentage of GDP, had been achieved by fiscal year 2021/2022, primarily driven by life insurance, with **2.86%** for life and **0.81%** for non-life.⁴⁵ This is comparable to the **3.7%** penetration rate for Emerging Asia.⁴⁶ However, non-life insurance penetration was relatively low (**0.81%**) for Nepal compared to the **1.6%** average for Emerging Asia.⁴⁷



38% of the population was covered by various forms of life insurance (including endowment, term, credit life and micro term insurance) in July 2023.⁴⁸

43% of non-life GWP, the largest share, was accounted for by motor insurance (with third-party mandatory coverage) in 2019.⁴⁹

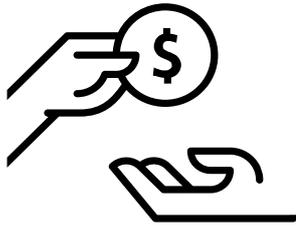
Recently, consolidation has taken place among insurance companies in Nepal, likely because of increased paid-up capital requirements. Life insurers are now required to have NPR 5 billion (**\$38 million**), while non-life insurers need NPR 2.5 billion (**\$19 million**).⁵⁰ Paid-up capital for microinsurance companies is NPR 750 million (**\$5.6 million**).

Inclusive insurance: Fast facts



- The growth of inclusive insurance in Nepal is largely driven by **microinsurance**, with life microinsurance comprising **98%** of all microinsurance policies issued.⁴³
- Despite concerted efforts, microinsurance uptake has not reached expectations, resulting in low market penetration. The total number of microinsurance (including crop and cattle scheme) policies issued for 2021/2022 was just over **4 million**.⁴⁴
- The Microinsurance Directive of 2023 prescribes product prototypes, which have primarily been adopted by non-life insurers. In contrast, life insurers predominantly opt to design their own microinsurance products. These product prototypes may evolve in response to new regulations.

Life products



- **Credit life products**, largely offered through MFIs, drive the success of life microinsurance in Nepal.
- **Savings-linked or endowment-type products** have so far had minimal presence, in light of NRB's provision that restricts BFIs in Nepal to insuring (only) the collateral pledged for loans with the insurance company chosen by the borrower.⁵¹

Non-life (including agriculture) products



Non-life insurers have encountered various challenges in Nepal, including the recent impact of the COVID-19 pandemic, which led to a significant reduction in the number of policies issued (from more than 100,000 policies in 2018/2019 to fewer than 70,000 in 2021/2022).

The formalization of agriculture insurance in Nepal followed the introduction of the **Crop and Livestock Directive (2013)**, although some companies were already offering agriculture insurance products.



- In recent years, a few companies have launched **weather-based index insurance** (not exclusively microinsurance) targeting both smallholder and commercial farmers. Some of these schemes are still ongoing, such as **Practical Action's Index-Based Flood Insurance (IBFI)** program in Western Nepal, which has paid out more than \$28,000 in claims to nearly 1,000 smallholder farmers. However, several challenges persist, including data availability, the limited number of weather stations, scalability issues across regions and current agricultural insurance processes.
- The Ministry of Agriculture and Livestock Development (MOALD) provides subsidized insurance through its **Crop and Livestock Insurance Programme**, which issued over 21,000 agricultural policies in the first eight months of fiscal year 2022/2023, with government subsidies covering up to 80% of the total premium.⁵² However, receiving subsidy claims is a persistent challenge, to the extent that insurance companies suspended sales of **agriculture insurance** for a few weeks in 2023, citing the delay of reimbursement of subsidy funds from the GoN.⁵³ The programme is currently being redesigned and updated based on market feedback and new data. While cattle insurance has performed well under this programme, crop insurance has presented design and administration challenges.



Distribution

Common channels



MFIs, individual agents, branch offices and cooperatives are used as prominent distribution channels in Nepal. MFIs are particularly important, especially for mandatory credit life insurance (considered microinsurance) to loan clients, while insurers' branch offices are mostly used for agriculture insurance. As of mid-January 2023, 64 MFIs were operating in the country, serving some 3.26 million loan clients.⁵⁴

Other potential channels

Payment service providers (PSPs) have the potential to reach scale for inclusive insurance products, with some PSPs already selling insurance through their channels. As of mid-February 2023, NRB had licensed 27 PSPs, serving some 16 million clients.⁵⁵



Local and provincial governments have the potential to act as a channel, particularly for agriculture insurance, and some insurers are already collaborating on this front.



Digital financial services could significantly drive the acceleration of financial service usage, especially considering the relatively high mobile penetration in Nepal. According to the Nepal Telecommunication Authority, more than 36 million SIM cards have been issued in the country.⁵⁶

Demand



The 2018 Sector Study of Microinsurance in Nepal conducted by the UKaid-funded Sakchyam Access to Finance Programme commissioned a survey of 303 respondents to assess the risks faced by low-income households. Respondents ranked health-related problems, death of livestock, natural disasters, decreased agricultural production and livestock issues as their most significant challenges.⁵⁷

A recent financial literacy survey by NRB found that 30% of adults use insurance products, with 27% holding life insurance and 8.5% having non-life insurance. Gender disparities were evident: 35% of men and 26% of women had insurance products.⁵⁸

However, gaps exist in the availability of (micro)insurance demand data, and insurers face challenges due to low awareness of insurance among the target market as well as limited understanding of the market's characteristics.⁵⁹

Disaster risk financing: Status



Disaster risk assessments and data systems

Building Information Platform Against Disaster (BIPAD) Portal: Managed by the National Disaster Risk Reduction and Management Authority (NDRRMA), BIPAD collects data from provincial and local governments for use by Emergency Operation Centres, Nepal Police and other disaster risk reduction stakeholders (e.g., line ministries, non-governmental organizations, etc.).

Nepal Disaster Report:

Published periodically by the Ministry of Home Affairs (MoHA), this report gives comprehensive information on disaster losses and damages, aligning with the National Policy for Disaster Risk Reduction.⁶⁰

National Emergency Operation

Centre (NEOC) Data: NEOC, managed by MoHA, houses Nepal's **Disaster Risk Reduction (DRR) Portal** and provides data on affected people, casualties, property damage and associated costs.⁶¹

National Disaster Risk Assessment

and Management Information System (NDRA-MIS): NDRA-MIS aims to collect, process and manage climate change impact and disaster risk information at all government levels, with expansion plans outlined in the DRF Implementation Plan.⁶²

Department of Hydrology

and Meteorology: The Department provides weather forecasts and flood warnings, aligning with DRM goals in the DRF Implementation Plan.⁶⁵

National

Seismological Centre:

The Centre, under the Department of Mines and Geology, monitors seismic activity.

Department of Hydrology

and Meteorology: The Department provides weather forecasts and flood warnings, aligning with DRM goals in the DRF Implementation Plan.



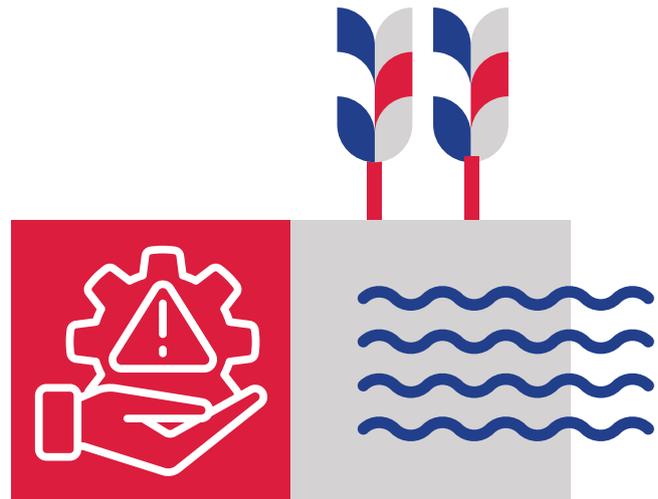
Public Asset Management System

(PAMS): PAMS, developed by the Financial Comptroller General Office (FCGO), tracks buildings, natural resources and infrastructure values of assets owned by local governments. The full concept of PAMS is still being developed.⁶⁶

The World Bank, the Global Facility for Disaster Reduction and Recovery (GFDRR) and others have supported **multi-hazard risk assessments**, such as the one conducted in 2010 by the Asian Disaster Preparedness Center, the Norwegian Geotechnical Institute and the Centre for International Studies and Cooperation (CECI).⁶³ **Hazard-specific risk assessments** have also been conducted, such as the Japan International Cooperation Agency's 2018 study of earthquake risk in Kathmandu Valley.⁶⁴

Existing legal, institutional and policy frameworks⁶⁷

The GoN is committed to disaster risk reduction and management under its Constitution and is implementing the Sendai Framework for Disaster Risk Reduction 2015–2030 for effective disaster response.⁶⁸



Legal

- **Disaster Risk Reduction and Management (DRRM) Act 2074 (2017) and DRRM Rules 2076 (2019):** These Acts include provisions on instruments and procedures for risk transfer, such as insurance and social security, as well as for Disaster Management Funds.
- **Local Government Operation Act 2017:** Under the Act, local governments must implement the National Building Code and Standards as well as activities of the Safe Settlement Development Programme.

Institutional

- **The DRRM National Council** is the highest-level DRRM body in Nepal and is chaired by the Prime Minister. The Council formulates strategies and approves disaster-related policies.⁶⁹
- **The DRRM Executive Committee**, chaired by the Minister of Home Affairs, manages operational affairs and guidelines.
- **NDRRMA**, housed at the MoHA, is the central institution for coordinating and implementing DRRM activities, including the DRF Strategy and DRF implementation plans. It was established in 2019 by Section 10 of the DRRM Act 2074.
- **Provincial, district and local DRRM Committees** operate at subnational levels of government on disaster preparedness and response.⁷⁰
- **The National Platform for DRR** aims to coordinate the DRRM efforts of all stakeholders (from public, private, development sectors, communities and more). The Platform is headed by the chief executive of NDRRMA.⁷¹
- The **Ministry of Finance** provides financial support for DRM through its budget.
- A network of **Emergency Operation Centres (EOCs)** throughout the country coordinate disaster preparedness and response.⁷²

Policies

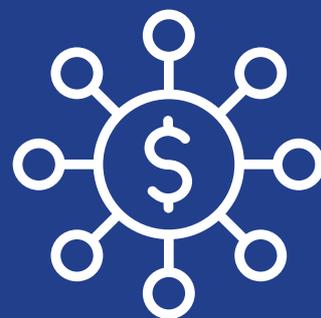
- **The Disaster Risk Financing Strategy 2020** was developed “in order to manage financial resources necessary for minimization of disaster damage, enhancement of post-disaster resilience of persons, society and nation and realization of the concept of ‘Build Back Better and Stronger.’”⁷³ The Strategy includes an overview of policies and laws relevant to DRF, DRR and DRM; current DRF-related activities; its vision, goal and objectives; and 15 strategic DRF-related activities. A corresponding implementation plan has not yet been made publicly available.
- **The National Policy for Disaster Risk Reduction 2018** calls for promotion of and access to agriculture and livestock insurance for vulnerable communities, soft loans for disaster-affected communities and insurance for public infrastructure, such as hospitals and schools.
- **The National Strategic Action Plan for Disaster Risk Reduction 2018–2030** includes in its priorities promoting disaster resilience through risk sharing, insurance and other instruments.
- **The Fifteenth Plan (2019/20 – 2023/24)** sets out national goals and targets for economic growth and social development, including a call for increasing public, private and community financing for disasters.
- **Disaster Management Fund Operating Procedure 2079** provides guidance on using funds for risk reduction and response as well as direction on how to receive funds.
- **The Agriculture Development Strategy (2015-2035)** includes priorities such as the establishment of a Farmers’ Welfare Fund and a Disaster Response Fund, as well as promotion of insurance.
- **The National Urban Development Strategy 2017** includes resilience to disasters as a key principle.
- **Industrial Policy 2011** includes a provision saying that expenses incurred on securing the safety of physical property of the industry, natural disaster and insurance cover can be deducted from taxable income.



Disaster risk finance mechanisms and instruments

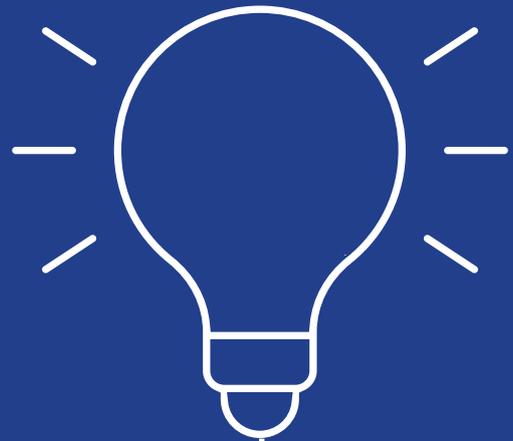
- Currently, the main DRF instruments in Nepal are ex-ante **budget allocations** and ex-post/post-disaster **budget reallocations** and **humanitarian appeals**. Disaster Management Funds (DM Funds) are an important ex-ante and ex-post mechanism, especially in terms of DRF at local and provincial levels, though challenges exist in the management of these DM Funds, especially in the context of pushing for risk reduction and pre-disaster instruments.
- The GoN has one **contingent credit line, a catastrophe deferred drawdown option (CAT DDO) of \$50 million**, via the World Bank.

The DRF Strategy 2020 and corresponding Implementation Plan outline a strong and proactive approach to planning for and managing the financial risks of disasters, and as a result, additional ex-ante instruments are under development. For example, sovereign risk transfer solutions for earthquakes and floods are being developed.⁷⁴



Way forward for inclusive insurance and disaster risk financing

The following recommendations are provided for supporting the development of inclusive insurance and disaster risk financing in Nepal.



1

Recommendations for the development of inclusive insurance

1.1

Insurance Act 2079 (2022) allows for stand-alone microinsurance companies and NIA issued a Microinsurance Directive in April 2023. However, supporting regulations and a more comprehensive directive on microinsurance are needed. It is understood that a more detailed directive is forthcoming, which will have critical and long-term implications for the microinsurance market.

Continue to develop a comprehensive Microinsurance Directive.

NIA should be supported on any further developments related to the Microinsurance Directive and additional regulations, including on ways to regulate microinsurance offered by the newly introduced stand-alone microinsurance companies as well as by commercial insurance companies, to ensure fairness in the market.

1.2

The anticipated comprehensive Microinsurance Directive will update the products previously prescribed by NIA. NIA and market stakeholders need to further analyse why the prescribed products, especially in non-life, did not perform as expected and identify areas for improvement.

Assess and improve prescribed microinsurance products.

- The value of the prescribed microinsurance products under development should be assessed (including pricing), particularly in non-life, and the industry should be involved. Rapid prototyping with low-income customers could be conducted to refine product offerings.
- For agricultural insurance:
 - NIA and MOALD should be helped to learn from international examples on how agriculture insurance is structured
 - Discussions between NIA and MOALD should be facilitated and an action plan should be developed on accessing the subsidy for crop and livestock microinsurance products (if the subsidy is sustainable – see 1.8).

1.3

NIA has adopted risk-based capital and risk-based supervision, including the implementation of the Proportionality Principle. This could have significant implications for microinsurance, but current efforts and activities lack a specific focus on microinsurance.

Provide tailored support for the Proportionality Principle.

A programme should be coordinated to provide support to NIA as it applies the Proportionality Principle, particularly with respect to microinsurance development, including on distribution and other important areas where the principle should be applied.

1.4

Microinsurance-specific training is currently limited to teaching the content of the regulations. Insurers require more robust training on microinsurance.

Support the development of microinsurance-specific training.

- Technical assistance should be provided to support the key insurance training institute(s) (e.g., the Insurance Institute of Nepal) in designing a microinsurance curriculum and building insurer capacity on microinsurance.
- International examples and best practices should be consulted and leveraged.

1.5

Microinsurance distribution channels such as digital channels and partnerships with provincial and local governments (including as part of DRF solutions) and cooperatives are underused and could be leveraged more by insurers. Currently, BFIs are only allowed to sell policies directly related to credit, which has implications for microinsurance distribution via BFIs, including MFIs.

Expand microinsurance distribution channels.

- Insurers should be supported to leverage digital platforms, provincial/local governments and cooperatives.
- Strategies based on international and local success stories should be developed.
- Discussions should be facilitated between public stakeholders and the industry in order to develop a way to open up the bancassurance channel with the necessary checks and balances.

1.6**Insurers have difficulty understanding microinsurance target markets and demand.****Address the challenge of microinsurance demand.**

- Prototype testing of microinsurance prescribed products should be conducted and customer feedback should be incorporated into product redesigns (see 1.2).
- An Innovation Lab should be established to support insurers in a variety of activities, including conducting demand research.
- Comprehensive research should be conducted on the target market segments (including women, SMEs and smallholders) with a focus on presenting a business case for insurers (i.e., including market sizing of target segments).

1.7**Nepal lacks qualified actuaries other areas of the actuarial field are underdeveloped.****Increase actuarial capacity.**

- In-house actuarial capacity should be established at NIA.
- The definition of the "appointed actuary" function should be reviewed and adapted to align with market needs.
- Mentorship guidance and technical training should be provided for actuarial graduates and practitioners to increase their confidence and capacity in actuarial work.
- Capacity-building efforts should be supported in collaboration and coordination with the UNDP-Milliman Global Actuarial Initiative.

1.8**The overall sustainability of the Crop and Cattle Insurance subsidy programme remains uncertain, as the subsidy amount seems to depend on government administrative decisions.****Review and provide recommendations on the Crop and Cattle Insurance subsidy programme.**

- Technical assistance should include:
 - A review of the current programme and root causes of existing challenges (in particular, subsidy distribution delays)
 - Recommendations on smart subsidy design and sustainability
 - Best practice learnings from other markets, including on index insurance
- Findings could potentially be provided in a policy paper to MOALD/GoN.

1.9**Interest in index insurance is growing and some pilots are under way. However, index insurance is not a silver bullet solution and requires nuanced approaches. Given the complexity of index insurance and the multitude of parties involved, reflection on existing pilots and discussion with relevant stakeholders is crucial.****Share knowledge and create a platform for discussion on index insurance.**

- Knowledge-sharing should be facilitated and a platform for discussion on index insurance should be created in cooperation with the insurance industry, the regulator, MOALD, data partners (such as the Department of Hydrology and Meteorology), development partners and any other relevant agricultural value chain actors or other partners.
- This could potentially be achieved through the formation of a multi-stakeholder working group to develop a strategic framework and/or guidelines for those working on index insurance projects in Nepal.

1.10

Awareness of (micro)insurance is low among low-income and vulnerable populations in Nepal. Large-scale awareness campaigns can be costly and potentially ineffective unless suitable insurance products are available in the market to compliment financial education efforts.

Develop an effective and efficient way to promote insurance awareness.

NIA and sector stakeholders should work together to incorporate insurance awareness and financial education into existing or new activities (e.g., by developing an editable toolkit of awareness and marketing collateral endorsed and co-branded with NIA that insurers and their distribution partners can leverage for their own purposes).

2

Recommendations for the development of disaster risk financing

2.1

The GoN has developed strong policies on DRM and DRF, but the institutions tasked with implementing these efforts are not well informed or trained on DRF, especially ex-ante DRF instruments. In addition, lists of “vulnerable groups” at the local and ward levels are not standardized and exclude important at-risk groups.

Provide capacity-building on DRF at all levels of government.

- Comprehensive training on DRF should be provided for all levels of government, including basic planning, execution of existing funds and implementation of existing public financial management rules.
- Municipal governments should be assisted through a training of trainers model.
- Municipalities should be supported to define and standardize vulnerable group lists using guidelines like “A Common Framework for Gender Equality and Social Inclusion”.⁷⁵

2.2

NDRRMA has developed operating guidelines for the use of disaster management funds at all levels of government. However, not all provincial and local levels have guidelines, and of those that do, not all are following the standardized guidelines.

Standardize Disaster Management Fund operating guidelines.

- DM Fund operating guidelines for provincial and local governments should be standardized.
- This effort should be combined with capacity-building on DRF (see 2.1) for a coordinated approach.

2.3

Sovereign-level risk transfer solutions are in development but municipal-level DRF solutions are not.

Develop municipal-level DRF solutions.

- After implementing the above recommendations on capacity-building and standardizing DM Fund guidelines, municipalities should be supported in developing DRF solutions for floods and landslides.
- Technical assistance should be provided for risk assessments of public assets.

2.4

Multiple public, private and development sector actors are involved in DRF in Nepal. Coordination is needed to ensure the best mix of DRF instruments and inputs and to leverage learnings and investments.

Coordinate DRF activities.

- The DRF National Strategy 2078 Implementation Plan should be used for guidance on short-, medium- and long-term goals and suggested responsible entities.
- Stakeholders interested in developing market-based financial instruments should consult Section 2 of the Implementation Plan, especially the points on mobilization processes.

2.5

Risk assessments for specific hazards and multi-hazard have been carried out, but NDRRMA has expressed need for additional support on risk assessments.

Conduct risk assessments.

- Priority gaps in risk assessments should be identified and addressed.
- Based on need and demand from NDRRMA and its partners, other initiatives such as the Global Risk Modelling Alliance should be approached for support on risk assessments and modelling.

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