



THE INSURANCE MARKET IN NEPAL

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<p>Abstract:</p> <p>The purpose of this study is to present current situation of insurance market in Nepal, discuss and draw a conclusion to attract more participation in insurance business. In other words, this research provides an overview of insurance and its significance in this modern, complex world. In addition, this study provides insight into modern services in insurance business like online insurance and study about its probable niche market in Nepalese insurance industry.</p> <p>This study uses qualitative research method to get an actual picture of current insurance market situation of Nepal and future prospects of new creative services in this sector. Secondary research is considered to analyze the trend of the insurance market. It is essential to answer research questions about the situation of insurance market in Nepal and probable market niche in online insurance company.</p>	
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1. INTRODUCTION

1.1 Background

It is obvious that the world is surrounded by risks and uncertainties in the 21st century of modernization and globalization. Especially, in developing country like Nepal, safety and security are one of the key issues. It gives author an immense pleasure to research insurance market in Nepal. Author hopes this research will be a milestone for creating a niche in the field of online insurance market.

The insurance in Nepal doesn't have a long history. Modern insurance company began from 1947 A.D. Due to lack of awareness, people were not serious about the significance of different aspects of insurance. This resulted in people suffering heavy losses during accidents. The first insurance company was named as "Maal Chalani ra Bima Company" which was later renamed as "Nepal insurance and Transport Company" in 1959 and further renamed as "Nepal Insurance Company Ltd". In 1968, the government of Nepal established "Rastriya Bima Sasthan" under the Company act. *Beema Samiti (Insurance Board) is an autonomous body, established to develop, systemize, regularize and regulate the insurance business of Nepal under Insurance Act, 1992* (Insurance Board of Nepal). Insurance company collects funds as premium method in accordance to their nature and corporate objectives. (Insurance Board of Nepal)

Marketing is a key aspect determining the success or failure of any business in a competitive world. Good marketing study helps in building a niche among its competitors. Hence, study of insurance market can seriously enhance the quality of services by knowing facts on consumer demand and fulfilling them effectively. Business pattern around the world has been changing rapidly with fierce competition in the market. Innovative ideas are the key aspects of today's business world. Particularly, in insurance business, innovation can be one of the most important formulas for insurance company to gain and retain clients. Due to the business nature, insurance companies have to be creative financial institute, focusing on accepting and adopting new trends in the market.

As a result of rapid globalization of information technology, even developing countries like Nepal; have been aware of hi-tech information system. It is very essential to have public friendly services in any business sector. Hence, even in insurance industry, online insurance has been growing as a major force to drive insurance business to the next level of modernization. Introducing online insurance can be a major milestone in today's Nepalese environment as most of urban areas are connected with internet services.

1.2 Research objectives and Questions

The main objective of this study is to find out present situation of insurance market in Nepal and discuss to enhance quality of insurance services in the highest level. It will also suggest using the findings of the study for the betterment of insurance industry in Nepal that will encourage the general public to secure their life and assets.

Nepal is a developing country where more than 80% of total population lives in village and only 60% are literate. Most of the Nepalese do not have enough income to invest in insurance companies to get insurance services. Prevailing poverty in Nepal may have the huge impact to run insurance business smoothly. Therefore, this study is trying to answer the following research questions:

- How is the situation of insurance market in Nepal?
- Would there be a niche for an online insurance company?

1.3 Research Methodology

To meet the objectives of the study, various methods and techniques are used during the course of research studies. As said by Kothari, “*Research methodology refers to the various methods which are used by the researcher during the course of studying his research problem*”(Kothari, 1990:8).

This study incorporates qualitative research method in which interviews are conducted to draw an actual scenario of present situation of insurance business in Nepal. Interview is one of the key methods to gather in-depth information. Qualitative interview are categorized in three different ways as unstructured, semi-structured and structured. Semi-structured type of qualitative interview is conducted as it suits the research objectives. Semi-structure in-depth interviews are conducted with certain set of themes and pre-determined open-ended questions. However, the order and sequence of question may vary but the soul and structure of the questions remain the same. This helps to gather thoughts, opinions and experience of interviewee about their field. (Saunders, Lewis, Thorn hill 2007:312)

The respondents were not accessible physically. Thus, telephone interview was conducted separately with two insurance professionals from Nepal. The questionnaires were prepared in Nepali language and then translated in English that are included in Appendix 2. Additional to that, transcript of interviews are also translated in English and attached in appendices 3 and 4. This study also includes secondary data that are collected from different published sources, such as:

- Annual reports of various insurance companies
- Various publications of the government agencies and bodies related to this field
- Books and journals
- Periodicals, Newspapers, and magazines
- Internet and other media sources

1.4 Limitations of the Study

The research study is highly based upon theoretical aspects of understanding the insurance market in Nepal. Primary data collected from authorized sources can question the credibility of the data. Secondary data are used as main tools to drive this research and draw a conclusion. Author's physical presence in Nepal to draft the whole thesis was not possible because of time constraint.

1.5 Structure of the Study

This study is precisely divided into six parts and each part has its own importance. First part includes introduction and background with research objectives, questions, methodology and limitations. Second part is an introduction to insurance and its types along with the evolution of insurance in Nepal. The third part consists of a comparison of Nepalese insurance situation with other insurance industry. Fourth part is about online insurance and its different business models. In addition, it also explains the advantages and disadvantages of online insurance. Furthermore, fifth part includes the potential of online insurance in Nepal and its different aspects including interview taken with insurance professionals from Nepal. It also concludes and discusses about the findings of the interview. The last part includes necessary suggestions from the author to ensure smooth market of insurance in Nepal.

2.INSURANCE

2.1 Definitions

“Insurance may be defined as a system of combining much loss exposure, with the cost of the losses being shared by all the participants”. (Crane1980:8)

In simple words, insurance is a means to minimize future uncertainties and losses. It is very important to be secured from threats. Insurance provides a canopy under which the consequences of such threats are compensated and hence eases life. In other words, insurance can refer to a financial institute that safeguards the future economic losses. It creates the hope and provides motivation to any business.

From the above definitions, insurance can be seen as a crucial factor to boost up the confidence by providing means to cope with risks faced and taken by people in their daily life. Insurance has emerged as a multidimensional business at present. It benefits directly or indirectly for various sectors of the society. Moreover, insurance institution helps in overall economic growth of country by protecting against loss of property and health. Through prevention of economic losses, insurance protects the society against degradation.

It is very important to know about risk and risk management before getting further deep into insurance as these factors are the key elements of insurance.

2.2 Risks

Risk is the term used for the uncertainty about future losses. It is an unknown consequence of future that can raise future damage or loss. According to A.S Hornby in oxford dictionary,

“Risk is the possibility or chance of the meeting danger or suffering loss”. (Hornby 1996:67)

Risk has been more usual phenomenon that is occurring in daily life. Thus, to minimize this risk, people tend to insuring themselves.

2.3 Risk Management

Risk management is a process to manage future uncertainty which is called risk. In other words, it is a systematic way of minimizing the future loss by proper planning in handling risks. *“Risk management is general management functions that identify asses and address the cause and effect uncertainty and risk on an organization”*. (Williams & Young 1995:27)

It deals with every aspects of risk that can happen in future by identifying, analyzing, and handling the possible consequences. Risk management plays a key role in any business.

2.4 Types of Insurance

Insurance Company insures wide variety of uncertain aspects of our life and society that can be classified as life and general insurance. Life insurance is a contract that is made between an individual and insurance company where individual agrees to pay premium and in return, insurance company pays a certain sum of money either on the death of insurer or on the expiry of a fixed period. It deals only with physical and mental accident of individual whereas general insurance considers all insurance except life insurance.

Life and general insurance are broad concept and are discussed below.

2.3.1 Life Insurance

Life is uncertain. A man may die relatively young, leaving his dependent without adequate financial supports. So, life insurance plays a major role to overcome this deficiency. It is an

insurance that is done to safeguard the future of insurer's family by giving strength to pursue their prosperous future. It is not only in the case of death of insurer but also in times of his/her serious illness or incapable of continuing work. Life insurance provides a support to rebuild the confidence in future.

“Life insurance is a contract providing for payment of a sum of money to the person assured or to his nominee, on the happening of certain events” (Jyotsna & Nishwan 2007:182)

Generally, life insurance is a type of insurance plan conducted by the insurers that is directly related with providing assurance against the common part of total human life. It is not the assurance of life as it is impossible. However, it assures and tries to meet the economic aspects of human life. It provides future benefits against unseen future accident and it helps to live comfortably during retirement and incapable stage of life.

Nepal Insurance Act 1992(section 2-1) has defined life insurance as *“the contract of insurance, affected on human life on the basis of age to pay a fixed sum to the assured or his nominee, on the death or on the happening of any contingency, dependent on human life in consideration of payment of a fixed installment premium by the insured person”*.

Insurance companies provided various policies in accordance to insured interest and desire. The policies in life insurance that are common in practice are listed below.

- Whole Insurance

Life insurance policy that covers the entire life is called whole insurance. This policy covers a policy holder against death during his whole life. This policy is a long term policy that insures the individual throughout his life.

“Whole life insurance doesn't have any expiration date. When signing the contract, the insurance company and the policy holders agree to set a face value (amount of money benefit in case of death) and a premium.”(Rios-Rull, Jay H.Hong & Jose-Victor 2004:6)

This type of life insurance helps in building the value that is paid out to beneficiary in case of death of policy holder. Moreover, the premium is fixed irrespective of your age.

- **Term Insurance**

Term insurance policy is the most common life insurance policy and it covers for a specified term. It protects a policyholder's life only until its expiration date and after that it expired as it is for certain period. This policy premium is less than whole life insurance premium costs.

It is beneficial for a short period of time and helps in immediate need. For example, it is a good choice of parents to have coverage of young children for term life insurance until their children grow enough to make living themselves.(Rios-Rull, Jay H.Hong & Jose-Victor 2004:5)

2.3.2 Non-Life Insurance

Non-life insurance is also called general insurance. Any insurance other than life insurance is known as non-life insurance. Because of its nature of measuring any risk in terms of money, it is also said as pure insurance. General insurance is the insurance of property and liable risk of insured against most specified cost that is premium. It also includes property insurance, liability insurance and others forms of insurance.

According to David (1983), "This part of insurance includes the insurance and risk transfer of the property and liability of insured where property insurance against loss arising from the ownership or use of property includes two general classifications. The first indemnifies the insured in the event of loss growing out of damage too or destruction of his/her property. The second form pays damages for which the insured is legally liable the

consequence of negligent acts that result in injuries to other person or damage to their property. This is known as liability insurance”. (David I.Bickelhaupt 1983:80f)

General insurance is designed according to the customer necessity and it is very appropriate for covering any kind of uncertainty in future. It can play a vital role in building a progressive business by assuring their business activities. This will propel individuals and business sectors to take risk and be successful in future.

There are different kinds of non-life insurance classified according to their nature, which are as follows:

Marine Insurance

The marine insurance is the oldest form of insurance that originated from Greek and maritime loan. This insurance policy is focused on insuring the loss or damage involved during transportation of goods from the points of loading to unloading of the goods. It is very essential insurance for the shipping industry as it protects against loss or damage by peril of the sea and generally, through the hazards of transit.

In fact, marine insurance provides all kind of assurance during a given period of voyage that include from natural disaster to other manmade disaster. The modern marine insurance policy provides the protection against inland transit loss arising on the way to seller and buyer. Marine insurance can be classified into following categories: (Goel: 151f)

- Hull insurance
- Cargo insurance
- Freight insurance
- Liability Insurance

Fire Insurance

The insurance policy that covers loss and damages caused by fire is called fire insurance. It is a contract made to compensate a certain loss or damage during the policy period caused

by fire. Fire insurance plays a pivotal role in compensating the losses as it can cause a huge destruction of valuable property.

However, the policy of fire insurance can be modified according to need of insurer that may include wide range of danger close to fire like wind, storm, earthquake, terrorism, explosion, and landslide. Fire insurance contract can be customized by changing the premium as for the need of insurer. (Goel: 143f)

Aviation Insurance

Aviation insurance policy covers the loss and damage occurred in aircraft during flights, landing, and takeoffs. In addition to that, it also covers the risk of passengers and aircraft hull. Aviation is a big industry at present. So, aviation insurance policy has an immense importance for assuring any future damage and loss. It includes the hull insurance, aircraft liability insurance and medical payments too. (Bennett 2004:33f)

Motor Insurance

Automobile insurance has immense impact in sharing the loss and controlling the damage caused from vehicles. This insurance policy helps by covering the losses and damages resulting due to accidents of vehicles. With the growing number of vehicles in the street, road accidents have been major threat compared to other means of transport. Automobile insurance policy generally covers property, liability, and medical expense according to the contract made between insurance company and insurer. (Goel: 164f)

Engineering Insurance

This insurance policy helps in covering losses and damages occurring in construction and engineering industries. It covers against damages caused in engineering equipment and plants during the construction stage. From the small machinery to big equipment, everything is insured under these policies that enable a sound completion of the consignment. (Gabriel 2007:515)

Contractors All Risk Insurance

This insurance provides indemnity to contractors for physical damage that may take place during the period of construction and also during certain period of maintenance. This policy can be extended to cover third party liabilities also, depending upon the agreement. (Gabriel 2007: 515f)

Money and Transit Insurance

This type of insurance policy is generally required for bank and financial institution that are involved in receiving and sending cash from one place to another. It provides the indemnity of the cash loss during transit period. (Gabriel 2007:518)

Personal Accident Insurable Policies

The policy helps insurer by financially assuring against being handicapped or disability resulting from accident. This insurance policy is very important for any individual as it financially helps in times of need and incapability. (Goel: 170)

Fidelity Guarantee Insurance

The Fidelity guarantee insurance covers the loss and damages against the case of fraud and dishonesty. The owner of firm or organization gets the guarantee against the fraud or betrayal caused by the employees. There can be a big loss as valuable employees can misuse their position and involve in fraud. (Goel: 171f)

2.5 Evolution of Insurance in Nepal

The history of insurance practices evolves with “Guthi System” which is the joint family culture that has been prevalent from ancient times in Nepal. This system has provided security and assistance to individuals and families in times of need. It is a kind of trust where lands and money are allocated from different sources for religious and charitable purposes. Hence, this trust was referred as Guthi and this money or lands were utilized for a needy purpose, which was called as a Guthi system. In other words, this was practical system of gathering properties or assets from a state or people and using in future for some

social cause. 'Guthi' is derived from Sanskrit word 'Gosthi' that refers to an association or an assembly. But modernization and growth of various small-scale industries brought the necessity of insurance companies in Nepal to insure any loss and damage. (NeelamPradhanga, Krishna K. Shrestha& John Dee2009)

In 1937, to meet the growing economic and social development Nepal Bank Limited was established as the first bank of the country. However, there were not any Nepalese insurance company and Indian insurance companies were doing business here and taking the premium collected to foreign land. To stop the strong presence of foreign insurance companies in local market, Nepal Insurance and Transport Company was establish under the ownership of Nepal Bank Limited in 1947. It was the first local insurance company ever established in Nepal.

The democracy in Nepal brought a rapid economic and social revolution and in result, many industries began to establish. Investment began to increase in education, trade and transport. Many Indian insurance companies started to have dominance in the Nepalese market as Nepalese insurance company had limited sources and was still in infant stage. To meet the demand of increasing need of modern insurance company, Nepal government established 'Rastriya Beema Sansthan Private limited'. Later, it was converted to Rastriya Beema Sansthan in 1968. (Insurance Board Nepal)

Beema Samitee was also established in 1968. "The word 'Beema' means 'Insurance' and 'Samiti' means 'Board' in Nepalese language. Hence, the word 'Beema Samiti' is synonymous to Insurance Board, which is constituted to systematize, regularize, develop and regulate the insurance business within the country under Insurance Act, 1992"(Insurance Board Nepal). Deposit Insurance and Credit Guarantee Corporation were established in 1974 and General Insurance Company in 1968. These were the first private insurance companies in Nepal. After the restoration of democracy, the government initiated economic liberalization in the country and as a result, many private insurance companies were introduced.

There are 25 insurance companies registered in Nepal in which 16 are only general insurance companies and other are either life or both insurance companies.

3. NEPALESE INSURANCE IN THE WORLD

Insurance plays a significant role in overall financial market of an economy. Due to several reasons, Nepalese insurance market has not been effective and efficient in comparison to foreign insurance market. According to National board of Nepal, only 6% of Nepalese are insured and around 1.6 million people belong to various insurance companies in Nepal. In year 2009, 25 companies had registered where total transaction of 122.4724 million US dollars was made which includes 73.03 million US dollars of non-life insurance and 49.43 million US dollars of life insurance. (Insurance Board Nepal)

To ensure the right comparison of Nepalese insurance industry with other insurance industry, it is very important to discuss in the topics that are mentioned below.

3.1 International and National economy situation

Economic situation had an immense effect in insurance market. Any insurance market of the world hugely depends on its economic situation. The world economy has been changing every year.

Table 1 Economic situation of the world.

Economy	Economy change in %					
	2005	2006	2007	2008	2009	2010
World	4.4	5.0	5.2	3.0	-0.6	4.2
Developed countries	2.7	2.5	2.28	0.5	-3.2	2.3
India	9.1	9.7	9.4	7.3	5.7	8.8
Nepal	3.1	2.8	3.3	5.3	4.7	3.0

(Source: Insurance Board Nepal)

As seen in Table 1, World economy is making a good progress despite economic crisis that started from 2008. However, Indian economy is growing in a good pace compared to Nepal or World economy. Nepalese economy is in lower side in recent year with only 3% change in 2010.

3.2 International and National insurance density (premium per capita in US\$)

Insurance density is a key element to measure the potential insurance market. Thus, it plays a great role in measuring insurance growth and development. World insurance density has been remarkably rising in an average rate of 6.23% from 2002/3 to 2007/8. Nepalese insurance density growth rates, in terms of percentage, from 2002/3 to 2008/9, were 2.39, 2.59, 2.86, 3.19, 3.72, 4.22 and 5.06 respectively. The table below of insurance density has a great significance to evaluate the potential of insurance board. Here, we can see that the Nepalese insurance market has shown gradual progress that is a sign of better future of

insurance business. Moreover, Nepalese insurance density looks in a higher side than its neighboring country Bangladesh. (Insurance Board Nepal)

Table 2: insurance density measures as ratio or premium to total population

Description	Insurance Density(In American dollar)						
	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04	2002/03
World	673.40	633.90	607.70	554.80	518.50	511.50	469.60
India	49.00	47.40	46.60	38.40	22.70	19.70	16.40
Bangladesh			2.90	2.60	2.50	2.30	2.10
Nepal	5.07	4.22	3.72	3.19	2.86	2.59	2.39

(Source: Insurance Board Nepal)

3.3 Contribution of Total Insurance premium to gross domestic product

Gross domestic product is a term to evaluate an economic prosperity of a given country as it is a core part of overall economic situation. From 2002/03 to 2008/09, contribution of world insurance premium to a gross domestic product were 8.06%, 7.99%, 7.52%, 7.50%, 7.50%, 7.07%, and 7.05% respectively. On the other hand, contribution of Nepalese insurance premium to gross domestic product from 2002/03 to 2008/09 were 0.88%,0.90%,0.99%,1.03%,1.10%,1.17%, 1.36% respectively.

Table 3: Contribution of total insurance premium in GDP

Description	Contribution of total insurance premium in GDP(In percentage)
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	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04	2002/03
World	7.05	7.07	7.50	7.50	7.52	7.99	8.06
India	4.06	4.60	4.70	4.80	3.14	3.18	2.88
China			2.90	2.70	2.70	3.26	3.33
Bangladesh			0.70	0.60	0.61	0.57	0.57
Nepal	1.36	1.17	1.10	1.03	0.99	0.90	0.88

(Source: Insurance Board Nepal)

Table 3 shows the contribution made by insurance business in overall gross domestic product which creates a key impact in economy of the country. Nepalese insurance premium contribution is in a lower side in comparison to the world or Indian insurance premium's contribution to total gross domestic product.

3.4 Changes in International and national Insurance premium volumes

From 2002/03 to 2008/09, changes in world insurance premium volumes in percentage were 2.5, 2.9, 2.50, 4.2, 3.6, 3.44 and 3.19 respectively. In the same manner from 2002/03 to 2008/09, changes in Indian insurance premium volumes rates in percentage were 17.38, 16.5, 24.99, 49.95, 27.40, 8.18 and 5.69 respectively. Similarly, changes in Nepalese insurance premium volumes in percentage were 19.10, 10.81, 21.08, 14.14, 18, 63, 15.96 and 27.58 respectively. The table below shows the inspiring development of insurance market in Nepal as it has abundant potential to be one of the essential aspects of rising economy of Nepal. We can see bigger percentage of change in successive year in comparison to the world insurance premium volumes.

Table 4 Changes in International and national insurance premium volumes

Description	Changes in insurance premium volumes(In percentage)						
	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04	2002/03
World	3.19	3.44	3.6	4.2	2.5	2.9	2.5
India	5.67	8.18	27.40	49.95	24.99	16.52	17.38
Nepal	27.58	15.96	19.63	14.14	21.08	10.81	19.10

(Source: Insurance Board Nepal)

However, the Nepalese economy was not directly affected from world economic crisis that began from 2008. Therefore, we see Indian insurance premium volumes in lower side in the later years. It can be also resulted from lack of modernization in Indian Insurance sector that can have worse effect in future years.

4. ONLINE INSURANCE

“Online Insurance is the process of transferring, evaluating, tracking and reporting insurance information over network through the Internet” (William 2001:1). Rapid globalization of internet led to an immense demand of using it to provide effective and efficient services to people. Hence, insurance through Internet has also been seen as a major development in an insurance business to make it customer friendlier. Many multinational companies like Global Insurance, American Life Insurance, Zurich International Life, and Clements Worldwide Insurance has been very successful by insuring property and liability risks from different corner of the world through Internet. Online insurance have a great impact in modern business as it can manage the risks worldwide. (William 2001:1)

Different insurance companies have various methods and systems to conduct online insurance through internet. Basically, it includes a database where customers submit their information regarding various insurance aspects. William R. Hartigan who was the inventor of ‘method and system for providing online insurance information’ has invented a database containing individual data fields storing insurance information, including various limits and coverage features for insurance policies. Moreover, the insured can also access and view the insurance information using an access and password combination.(William 2001:1)

However, evolving technologies enable insurance companies to constantly modify its websites for making more customers friendly. Business models for insurance E-commerce can be categorized with the classic “build/buy/borrow” model of business marketing strategy (Conning & Conning, 2000). (Rakovska2001)

Company site (build)

- Contract/referral generator
- Sales initiation
- True online sales

- Online sales of specific products

Supermarket/mall (buy)

- Carrier leads
- Agent referral
- Online agency

Relationship-based (borrow)

- Portals, banners
- Event triggered links

‘E-insurers have empowered the consumer, acting as the catalyst that has forced traditional incumbents to fight back. In addition, many have now established business models for insurance e-commerce and are viewing e-commerce proactively as a means of increasing distribution and reducing costs.’.(Rakovska2001)

4.1 Business Model

It is a challenging job for insurance industry to cope with changing market environment. The distributions of insurance products through Internet have propelled a new innovation for many insurance companies. Different models are considered to give broader access to online insurance product in an efficient manner. Some of the emerging business models for online insurance are discussed below:

4.1.1 Intermediary Market Place Model

This model creates a strong market place that is associated with the best seller available and potential buyers. This is based on Business to Customer(B2C) line of marketing business where buyer has option to choose a best product in appropriate price. This model propels

customers to know their needs and increase knowledge in them to find out what is best for them.(Arora2003)

This insurance business model has created a strong online insurance market place that is connected with its buyers and sellers. As, this companies play a crucial role in connecting those services and providing them to suitable users. Companies like InsWeb(www.insweb.com) are perfect examples of this model where this company has built a market place where customer can know and learn their needs about the product that is suitable for them. On the other hand, it gives a seller an opportunity to focus their targeted customer and create a service accordingly. Insweb have provided a great platform for the both supplier and buyers as it directly links its customers to insurance companies. (Insweb)



Figure 1: Insweb (Source:Insweb)

There are several benefits to both parties concerned in this intermediary market place. In this model, a customer can choose from variety of options and seller gets a constant feedback about the market demand and they can shape up accordingly.

4.1.2 Marketing Support Only

This model is a traditional approach where customer can directly interact with concerned company. As insurers can directly use the host company website and access different

services and product online, it feels a sense of security in terms of knowing the information directly from the suppliers rather than earlier model through intermediary. (Rakovska 2001)

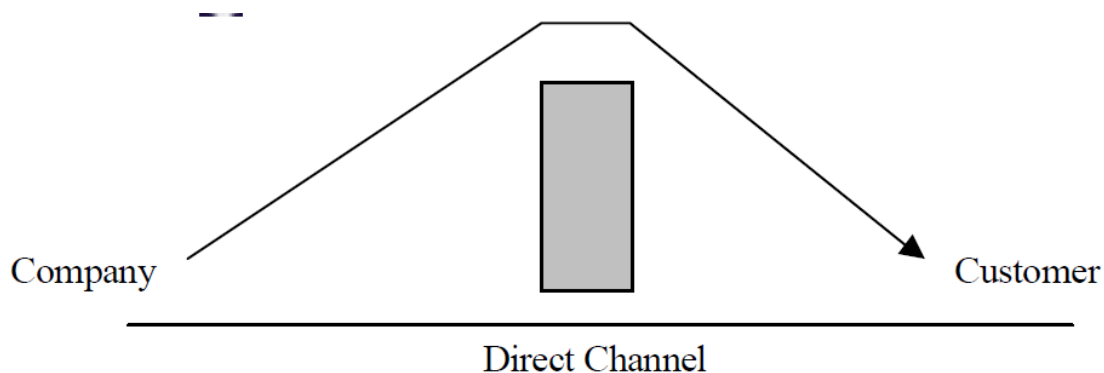


Figure 2: Marketing support only (Rakovska 2001)

Allianz (www.allianz.com), which is a leading property-casualty insurer globally, adopts this model giving a good opportunity to its customers to interact with them through their website. Customers can get necessary information and services about their product online. Moreover, customer can contact with the company personnel through mails and telephone for any queries and information. (Allianz)

4.1.3 Eyeball attractor

Eyeball attractor is the modern technology model in online insurance sector. It is based on Business to Customer (B2C) line marketing business approach same like marketplace model. In this model, a host organization has a various online products in their website which are associated with different suppliers. Hence, the mechanism of this model is whichever advertisements or products get more 'click'; they are referred to supplier who is providing that services. (Arora 2003)

C=Consumer

S=Supplier

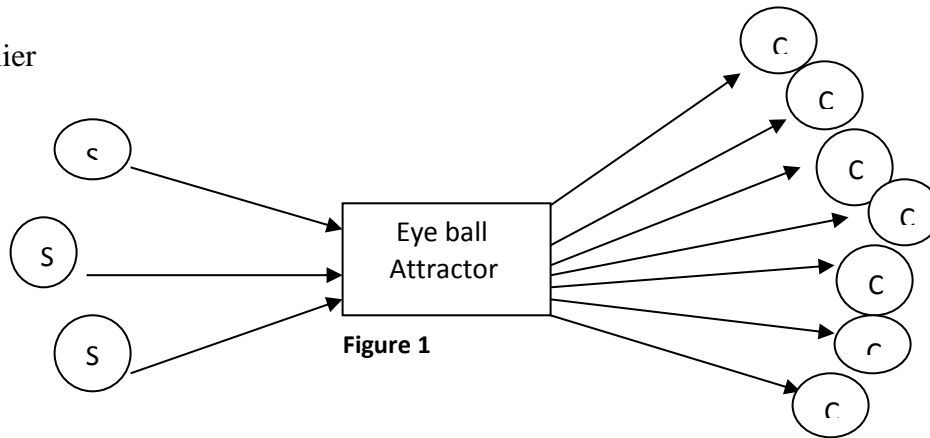


Figure 3: Eyeball attractor model(Arora 2003)

Insurance Benefits (insurancebenefits.com) is based in this model where customers click on the best possible service or scheme of insurance products. Hence, company gets benefits from the number of referral made due to the customer hits on that particular provider.

4.1.4 Reverse Auction

This model is a unique in its own character of doing business where buyers enjoy the benefits of choosing the suppliers that are participating in the bid. In other words, buyers make a bid and customers get an option to choose the best possible buyers in online insurance sectors. It is a different kind of model and it is called reverse auction as the dealing is opposite that has an immense effect in consumer demand. (Rakovska 2001)

The insurance exchange company (www.theinsuranceexchange.com) is based on this model where customer fill up their requirement and various online insurance companies associated with this company bid for that demand. At last, different proposals from different bidding companies are presented to the customer with alternatives and customers have right to choose which they think is the best for them. (theinsuranceexchange)

4.2 Benefits

The growing importance of online insurance market has a significant impact in business world. Online insurance has eliminated many hindrances and has created a favorable environment to do business for both customers and sellers. Every big insurance company has its own website and deals online with its customers. It has become an inevitable aspect for any insurance company as world business has oriented itself to the optimum utilization of technology. Some of the key benefits of the online insurance are as follows:

Reducing distribution and manufacturing costs

The opportunity that online insurance has created to directly link with buyer through internet has reduced both distribution and manufacturing cost for many insurance companies. Customer can directly interact with insurance companies online and can get necessary services which displace the middlemen like brokers and agents.(Rakovska 2001)

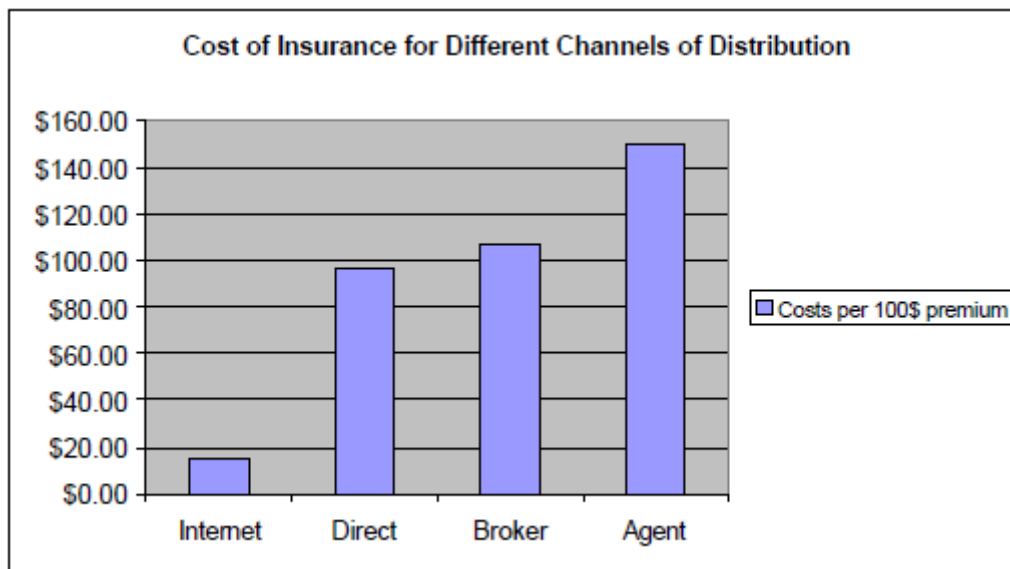


Figure 4: Cost of Insurance for Different Channels of Distribution (HAMILTON & BOOZ-ALLEN 1998:4)

This figure clearly shows the impact of insurance in reducing the cost. The use of Internet has comparatively lowered the cost by a big margin that is always an advantage for the insurance companies.

Marketing

Online insurance plays an important role in creating a platform to showcase different product and services through company's websites. Customer can get the information of product very fast. People are more connected through internet at present. Hence, it makes easier for companies and customer to get updated about new happenings. Internet market is seen as a huge medium to influence and aware the people about product and services. Moreover, it can also reach narrow market segments which are located in different corners of the world.

Overall Efficiency

Online insurance, as a whole, facilitates and increases the efficiency of overall business functioning of insurance companies. Providing online services can increase the speed and accuracy of doing business and gives sales and purchasing opportunities for both buyer and seller. Electronic business makes an insurance business easier and better place in doing a business providing higher quality services in lower prices.(Dr. Alam & Salim &Shah 2009: 36f)

4.3 Drawbacks

Online Insurance has also some drawbacks that can have an adverse effect in doing business. The most important problem in doing business online is technical limitations. It includes security and reliability in dealing online between insurance companies and customers. Security issues are the key problems as information can be stolen by hackers. Many technical errors can interrupt to have non-melodious environment for both the parties.

People are still not aware about online insurance in every corner of the world. Internet has not yet completely developed to have full confidence among customers. Customer attitude towards online dealing have trust issues as there is not any physical transactions and people are resistant to change.(Dr. Alam & Salim &Shah 2009: 36f)

5. RESULTS

Qualitative research was conducted to ensure right information for discussion and conclusion about the potentialityof online insurance market in Nepal.

5.1 Interview

Telephone interviews were conducted on 15th of October 2012 with two insurance professionals working in Nepal from last ten years and currently employed to a local insurance company of Nepal. Interview was done with Raju Thapa, an employee in Life Insurance Company and Anupam Ghimire, an insurance agent. The information which author got from these interviews was very important in knowing the exact insurance market and niche for online insurance in Nepal.

The answers of interview's questions were truly a great learning process for author. It assisted author to gather and draw a clear picture of insurance market and its future potential toadopt online insurance as a niche for its business.

The key points of interviewee's opinions are presented below:

- Insurance market in Nepal is growing day by day. At present, people are more conscious about insurance and its importance. Earlier, life insurance was the only insurance policy that people would adopt. However, these days both Life insurance and Non-Life insurance are becoming familiar in Nepal.
- Every fiscal year the revenue generated from Insurance market is getting higher and reports from Insurance Board are very encouraging.

- As for now online insurance is not in practice because information system and security system are not developed in Nepal as required.
- Internet facilities are rapidly growing and people are aware about the importance of internet in various sectors.
- To gain the competitive edge, insurance companies are constantly looking for innovative product and services. There are now 25 insurance companies. The competition is very high to retain present customer and attract the potential customers.
- Due to the lack of peace and security, insurance companies are unable to invest the premiums collected. Restoration of peace and security in the country is important to have the confidence for investment in various sectors built.
- Creating awareness about insurance is the best way to improve insurance business in Nepal. Reduction of income tax rates for insurance companies can also be a remedy to increase the participants in Insurance sector.
- Introduction of web based insurance system enhances the entire insurance fraternity
- Should there be internet access throughout the country; general public would be more interested in online insurance services.

6. DISCUSSION AND CONCLUSION

According to the research made, it is evident that online insurance is changing the scenario of insurance companies in the developed countries. It is also having major effects on insurance and its relationships. Online insurance comprises of the use of internet by customers for application and getting benefit from it. This falls into various levels; from minimum functionality sites to highly sophisticated offerings, enabling integrated products and other financial services. Online insurance helps to improve customer access, facilitates the offering of more services, increases customer loyalty, attracts new customers, provides services offered by competitors, and increases customer retention.

To focus within the research questions of this study, author has concluded following findings along with discussions.

6.1 How is the situation Of Insurance market in Nepal?

Insurance companies in Nepal are compelled to cope with the general population who are neither well-educated nor have enough money to insure themselves. This is all happening because of poor educational background and high poverty level. Moreover, due to political instability and decade long Maoist insurgency, development pace of country is pushed far behind. The central Bureau of Statistics (CBS) of Nepal shows that more than 25 percent of Nepalese are living below the poverty line. Therefore, aforementioned are the key factors that have played a significant role in denying more participation in Insurance sectors.

However, from the interview made it was clear that people are more positive about insurance and its impact in their day to day life at recent time. Government and private sectors' reports are showing the increasing number of participations in insurance market in every fiscal year.

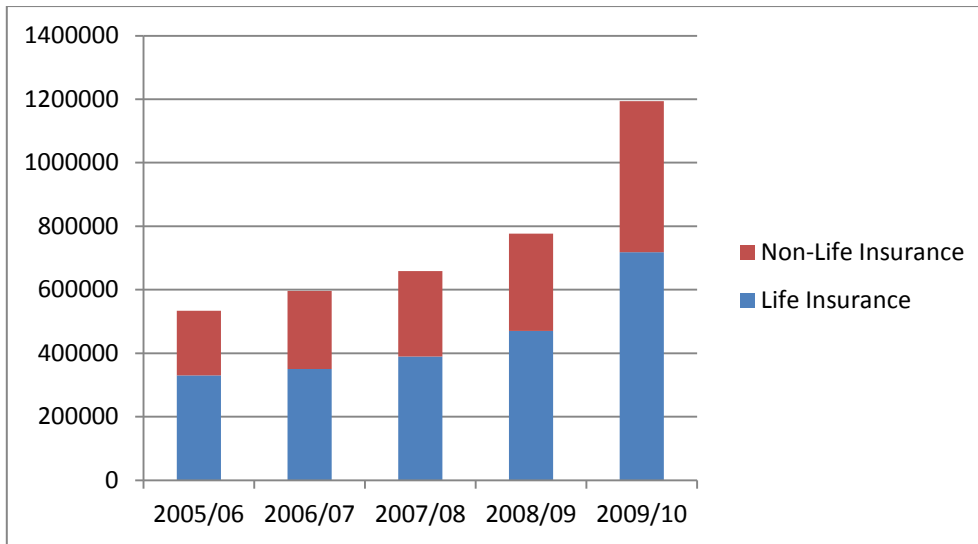


Figure 5: Number of insured people (Nepal Insurance Board annual Report 2011)

Figure 5 shows that every year the insured people are increasing. Especially, in the fiscal year 2009/10 significant difference was seen from 2008/09 where more than 300,000 new people were insured. Due to rapid advancement in information sectors, people's awareness towards insurance has been a key factor in this positive change. In the present context, people are being more knowledgeable about the importance and the benefits that insurance provides in their personal and professional life. These days insurance are not only the means of saving the money but it has been more like securing the future from uncertainty. These encouraging developments in insurance sector have opened a door for fierce competition in insurance industry. Insurance companies are looking for innovative products and services to gain a competitive edge.

6.2 Would there be a niche for an online Insurance company?

As a matter of fact, interviewee's response show that online insurance is supposed to be a complex system in the context of developing (underdeveloped) countries like Nepal. Nepal is a country where most of the parts are still remote areas. Various kinds of infrastructural development including information technology and internet still lack in Nepal. Access of

internet and computers are available only in the capital area and few urban areas of the country. Besides, majority of the population is still illiterate or uneducated. That is why; potential of online insurance in Nepal for the time being is futile.

On the other hand, insurance companies in Nepal are examining the prospect of entering this lucrative system or model of business. Although there is huge attraction in launching an online insurance system, insurance companies in Nepal face a monumental task at present. The only reason is because they would be hindered by the problems such as poor internet network and infrastructure along with inadequate funding in creating a fast and reliable network. In the same manner, due to the fact that majority of population is not educated, insurance companies have to contend with customer acceptance of insurance. Likewise, customers still feel more comfortable to have face-to-face deal with insurance company.

Some of the answers from the interview reveal that legal support for online insurance companies is also one of the major hindrances. No one is ready to fully comprehend the ever-changing world of cyber-crime. In this sense, online insurance is supposed to be quite risky business. Insurance companies do not want to contend with network security issues. Computers, internet are supposed to be very expensive to the standard of majority of population along with inadequate network support and unavailability of those resources. It is a common problem in Nepal to suffer from unreliable internet connection. Due to lack of enough bandwidth, the internet services are interrupted frequently.

People prefer more traditional way of processing through insurance companies themselves because of the difficulty they face when dealing with computers. They find it more convenient, trustworthy, and reliable in this sort of practice. That is why; it is a tough task for online insurance companies to convince those peoples for new and innovative ways of insurance.

Online insurance has made a radical change in other developed countries like in Europe and America. This has been proved to be more efficient and effective way of making insurance business which is convenient for both parties. The areas of cost reduction and satisfaction

of consumer needs are major two elements, which play a role of foundation stone for the potential competitive edge of online insurance companies.

In conclusion, the author believes that insurance companies are gearing up day by day. Hopefully, Nepal will also have access of online insurance in future course of time. Gradually, insurers, reinsurers and intermediaries are trying to make investment in information technology and try to determine suitable and sustainable online insurance model in Nepal. Till this date, political instability in a country has made detrimental impact in overall development of country including IT and insurance business. So, after political stability, infrastructural development in IT sector, higher literacy rate, and higher living standard of population, Nepal definitely deserves and has a promising future for online insurance system.

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8. APPENDICES

Appendix 1: Table List of Insurance Company in Nepal (Insurance Board of Nepal)

S.N	Name of the insurance company	Life/General
1	Nepal Insurance company limited	General
2	The Oriental Insurance Company Limited	General
3	National Insurance Company Limited	General
4	Rastriyal Beema Sasthan	Life, General
5	Prudential Insurance Company Limited	General
6	Himalayan General Insurance Company Limited	General
7	United Insurance Company Limited	General
8	Premier Insurance Company Limited	General
9	Everest Insurance Company Limited	General
10	Sagarmatha Insurance Company Limited	General
11	Neco Insuracne Company Limited	General
12	Alliance Insurance Company Limited	General
13	N.B Insurance Company Limited	General
14	American Life Insurance	Life
15	Nepal Life Insurance Company Limited	Life
16	Life Insurance Corporation Nepal	Life
17	Shikhar Insurance Company Limited	General
18	National Life and General Insurance Company Ltd	General, Life
19	Lumbini General Insurance Company Limited	General

20	Siddartha Insurance Company Limited	General
21	NLG Insurance Company Limited	General
22	Asian Life Insurance Co.Ltd.	Life
23	Surya Life Insurance Co.Ltd	Life
24	Guras Life Insurance Co.Ltd	Life
25	Prime Life Insurance Co.Ltd	Life

Appendix 2: Telephone Interview Questions

1. What is the current situation of insurance market in Nepal?
2. How do you assess the public awareness about insurance?
3. Do you see any kind of innovative products and technological adaption in Nepalese insurance industry?
4. Is this business getting competitive and how it can be improved?
5. Has the political instability and insurgency benefitted insurers?
6. Is there the scope of online insurance?
7. What benefits you see in having online insurance in Nepal?
8. Where do you see this sector after five years?
9. What are present biggest challenges that insurance industry is facing?
10. Would there be a niche for an online insurance company?

Appendix 3

Telephone Interview with Raju Thapa, an employee Life Insurance company Nepal.
Transcribed and appended to work. 15.10.2012

1. What is the current situation of insurance market in Nepal?
 - *Nepalese are growing conscious about insurance because economic market is going to expansion day by day and people are started to think about security as well as force saving. Every fiscal year audit report shows to prove it. So as an employee of life insurance Company, I see growing market in Nepal of insurance business. Insurance business companies' revenue is taking height in coming fiscal year.*
2. How do you assess the public awareness about insurance?
 - *Few Year ago people take insurance just for formalities. They deposit as a premium few amount whatever he can save. They didn't believed in insurance company because in Nepal corporate business in not develop. But slowly corporate business is going to establish and people consciousness is growing. People save as much as amount to buy insurance policy and make secure big amount of securities. In Non-life insurance also same because of huge economic activates. Business man always wants to feel secure in his business.*
3. Do you see any kind of innovative products and technological adaption in Nepalese insurance industry?
 - *Indeed I do, we could broaden our scope of insurance. Adaption of new technology with innovative products is always useful for any industry. I see much more room for development in this promising insurance industry.*
4. Is this business getting competitive and how it can be improved?
 - *Yes it is. I can see now the competition is in a peak level as every year new company is entering in the market. Our company is leading life insurance in Nepal and it is facing a challenge to maintain its position. But still there are many aspects we can improve like increasing services to every parts of the country. Fast and smooth services are needed to attract more people in this industry. Overall, I can say that competition is high but there is lot more to improve in the servicing sector. One way to improve this sector is to create awareness. We as an insurance companies have*

to be encouraged to grow and expand by government. Reduction of income tax rates for insurance companies will be a great initiative from government side.

5. Has the political instability and insurgency benefitted insurers?

- *Well, political instability never benefit to anybody. The country's economic growth has been hampered with this long insurgency. I don't think this has benefitted, instead it has adverse effect. We have been unable to invest the premium and there is the problem of the lack of long-term investment areas.*

6. Is there the scope of online insurance?

- *In Nepal, there are no any practice of online insurance because information system and securities system doesn't develop as much as require. People just started internet facility. Insurance Company has only its website. Consumer can't see his/her information in website without going company information desk. Consumer can't believe to online system because they are not in internet practice. Consumer depends in agent. Agent goes home or office of client and forces him to buy a policy. When agents fill the form then they feel secure. Government policy is constant from lot of year.*

If infrastructure of internet and network can be developed and spread in most part of the country, online insurance can have a great potential to be familiar among general public. For that first as an insurer we have to develop the trust of doing business online with our big mass of customer.

7. What benefits you see in having online insurance in Nepal?

- *As an employee of one of the leading insurance company, I see lots of benefit havingonline insurance in Nepal. Client can see his/ her information easily on online. From the Government side, it is easy to monitor insurance companies andcollect tax revenue as well as insurance holder facilities. In side of insurance companies, they can provide facilities easily and faster. Company can reduce its manpowerand office overhead, by this they will grow up company transference with government and consumer as well as profitability ratio. It helps grow up tax revenue and shareholder revenue and insurance holder bonus revenue.*

8. Where do you see this sector after five years?

- *If peace and security is restore in a country then we can take this sector in one of the prosperous industry in a country. However, there are many things to be done about insurance services, manpower involved in this industry. But if the environment remains same then we might not see any difference then to just sustain in this industry by what we are doing in present.*

9. What are present biggest challenges that insurance industry is facing?

- *Frankly speaking, we are in infant stage compare to western country's insurance industry. There are many present challenges like lack of skilled manpower, operating areas. We are only concentrated in urban areas but it is truth that most of the parts of Nepal are in remote areas. It is very important for us as an insurer to understand the market and back ourselves to extend our business and to go most parts of Nepal.*

10. Would there be a niche for an online insurance company?

- *Honestly speaking, we are still doing a business in a traditional way but now time has change, we must adopt with the modern advent. First of all, we must know and acknowledge the fact that is it suitable for our insurance company or not? Myself as an insurance professional, I think there is definitely a niche for our company in this growing competition. New innovations are always a matter of curiosity for potential customer, so addition of online insurance services can surely attract new customers.*

Appendix 4

Interview with Anupam Ghimire, an Insurance agent. Transcribed and appended to work.
15.10.2012

1. What is the current situation of insurance market in Nepal?
 - *Insurance market is in growing situation these days. Now days, people became more positive in insuring themselves. There are encouraging figure in recent year, still the market is huge but the bad economy of the country is affecting it.*
2. How do you assess the public awareness about insurance?
 - *Previously, only life insurance was the priority of the people but these days both Non-life and Life Insurance are popular among the people of Nepal. People are more interested now in different policies of insurance and its importance. In urban areas public awareness about insurance are very inspiring but in remote areas there is still lot for insurer to do.*
3. Do you see any kind of innovative products and technological adaption in Nepalese insurance industry?
 - *Well, to extend the market and attract more customers innovative products and technology always benefit. There is a great potential to launch various insurance policies in the sector of agriculture, aviation and tourism. Innovative product in these sectors can bring a prosperous future in Nepalese insurance industry.*
4. Is this business getting competitive and how it can be improved?
 - *Yes for some extent, if you see in larger picture I will not say it getting competitive as it is supposed to be. Lack of technical manpower, awareness and education is the key hurdles that are making it less competitive. No doubt, it can be improved but there are basic issues like poverty, illiteracy, peace and security that have to be eliminated.*
5. Has the political instability and insurgency benefitted insurers?
 - *To tell the truth, with this political instability and insurgency around the country there is no rule of law. In this turbulent situation, no industry of country is*

benefitted instead it is being shut down. Likewise, insurance industry is also been victimized in this environment. Hence, I don't see any insurers are getting any benefit rather they are demoralized.

6. Is there the scope of online insurance?

- I don't see the possibilities right now. Because the population of Nepal does not have enough fund and the educated percentage of the total citizen is comparatively low. The awareness for insuring must be a challenge. With the provision that infrastructure are developed for online insurance, I can see its bright future. However, it will take huge task to penetrate prevailing traditional trend in insurance market.*

7. What benefits you see in having online insurance in Nepal?

- Although, it will be a new thing in a market, we can have positive significance. There are numerous advantages because Nepal is still lacking smooth services in Insurance industry. Customers complain about the slow processing in providing the compensation against the loss by the Insurance companies and this is truly by the presence of traditional way of doing business. If we are able to introduce online insurance then this type of problem can eradicate and people can benefit from smooth and fast service.*

8. Where do you see this sector after five years?

- Multi National Insurance Companies are strong in the market these days. Like LIC,Nepal (a joint Venture of LIC, India), American Life Insurance Company where as Domestic Companies are still struggling to survive except the National Government owned Company Rastritya Beema Samiti. To sustain in this industry there is need of innovative product integrating with new technology. I see this sector have a bright and wide future but there are some basic hindrances that have to be addressed.*

9. What are present biggest challenges that insurance industry is facing?

- As a matter of fact, insurance is fund management. Therefore, governments have to secure the investment areas for the premium collected by insurance companies. If there are no any secure areas to invest then we cannot play around the policy holder's money. Moreover, there are many basic reasons that are also the challenges that I have mentioned earlier.*

10. Would there be a niche for an online insurance company?

If Nepalese Insurance companies are successful to adopt online insurance then it will have tremendous impact in these sectors. Definitely, there will be a niche for that company as it carries a modern way of doing business. I will not say it will at

once capture the market but as the time goes it will be popular with general public. As people are being busier every day, presence of online insurance gives them an opportunity to insure themselves through online.