

Climate and Disaster Risk Insurance-related Country Experience

Nepal: The Status of Agriculture Insurance in Nepal

Context

Agriculture insurance in Nepal is recognized as a specialized scheme that falls under the purview of the non-life insurance business. For such type of insurance business, the non-life insurance companies have set up separate agriculture insurance units to carry out and specialize in two areas: **a)** livestock, bird and poultry insurance, and **b)** crop insurance.

Developing agriculture insurance as a state subsidized program

In Nepal, the development of agriculture insurance was initiated in 2013 (2069 B.S. in Nepal) with the issuance of a Directive related to governmental premium subsidies for crop and livestock insurance. Based on this, Beema Samiti, the insurance regulator of Nepal, introduced **Crop and Livestock Insurance Directive 2069** in 2013 to implement agriculture insurance in the insurance industry and stimulate insurers to develop commercial agriculture insurance. The Directive:

1. Offers guidelines for product design but insurers can also submit their own schemes for approval by Beema Samiti.
2. Makes it obligatory for all the 20 non-life insurers to offer agriculture insurance. For this, Beema Samiti has allocated 75 districts among the 20 insurers to extend agriculture insurance coverage and area of operation.

Agriculture insurance policies and their scope

As per the guidelines laid by the Crop and Livestock Insurance Directive 2069, all the non-life insurance enterprises are liable to conduct the following type of agriculture insurance business: **1.** Livestock, poultry and fish insurance, **2.** Crop insurance, **3.** Other insurance as prescribed by Beema Samiti.

All the non-life insurers are required to offer and issue various sub-types of agriculture insurance policies belonging to the broader groups of livestock and crop insurance, as specified by Beema Samiti. These are outlined in the following table:

Category	Provided insurance policies
Livestock, poultry & fish insurance	<u>Livestock</u> : cow, buffalo, sheep/ goat, pig, etc. <u>Poultry</u> : hen, duck, ostrich, pheasant (not subsidized). <u>Fish</u> : fish, trout, fish pond.
Crop insurance	<u>Based on input cost</u> : Vegetable, mushroom, paddy, potato, fruit, banana, cardamom, bee. <u>Based on production cost</u> : vegetables, seeds, chaitedhaan (a type of seasonal paddy), ginger, turmeric, tea, coffee, citrus fruits, and weather-index based policy.

The premium rates vary according to the policy, ranging mostly from 5% to 7% of the sum insured, except for pond (1%), hen, pheasant (1.25%), ostrich, fish (2%), and apple insurance (8%). The commission fee for all policies is 15% of the premium.

To stimulate low-income farmers to participate, the state subsidizes 75% of the premium, an increase from 50% in 2014.

Risks covered

The policies cover the following risks and perils: **1) all policies**: fire, lightning, earthquake, flooding, landslide, drought, storm, hailstorm, frost, snow, sudden or accidental external factors, disease and illness, **2) extra for crop insurance**: damage caused by pests, and **3) for fish insurance**: damage caused by lack of oxygen and ammonia or death due to poison.

Major exclusions

The agricultural insurance policies exclude compensating losses caused by **a)** mandatory destruction by a government authority, **b)** loss from theft, **c)** sale of land (for crop insurance), **d)** loss of identification tag (livestock insurance), **e)** excess capacity or overcrowding (fish insurance), **f)** death due to bird flu (poultry insurance), **g)** war, terrorism, nuclear arms and radioactivity, or **h)** livestock being used for a purpose other than specified.



This factsheet is produced for the MEFIN Network, a collegial body of insurance policy makers and regulators in Asia, jointly by Beema Samiti (Insurance Board of Nepal) and the German Development Cooperation - Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (GIZ-RFPI Asia). In case of content-related questions, please contact Beema Samiti: info@nib.gov.np. www.mefin.org

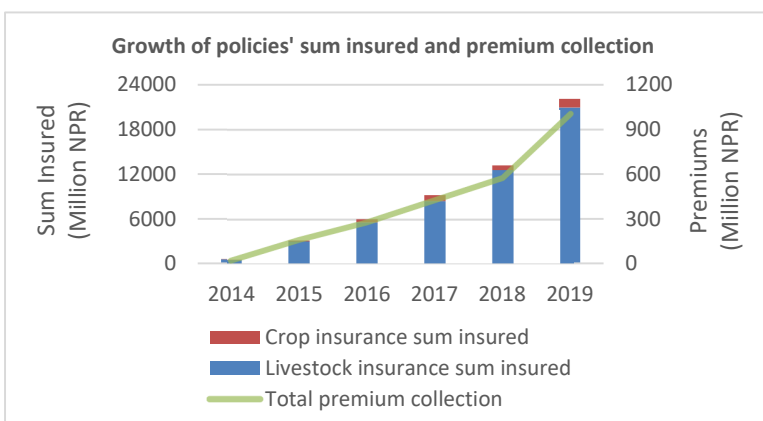
Provisions by agriculture insurance agents

Agricultural insurance agents, certified by Beema Samiti, work on behalf of the insured to facilitate the process, which includes assisting the insured in filling in the proposal form, informing the insured about the terms and conditions, and helping the insured to renew the policies. To become an agent, one must **1.** Be a Nepali citizen, **2.** Pass SLC or an equivalent degree, and **3.** Participate in Beema Samiti's agriculture insurance training.

Uptake of agricultural insurance policies

As depicted in the following figure, there has been a constant increase in the uptake of agricultural insurance policies:

- **The total sum insured** has increased from 625 million NPR in 2014 to 22 095 million NPR (163.5 million EUR) in 2019, with livestock insurance policies comprising 95% and crop insurance policies 5% of the entire sum insured.
- **The total premium collection** has increased from 23 million NPR in 2014 to 1 005 million NPR (7.4 million EUR) in 2019.



Challenges concerning agriculture insurance in Nepal

The agricultural insurance sector in Nepal faces many challenges that inhibit the sector's expansion. To name some:

- 80% of people in Nepal live in hard-to-access rural areas with insufficient infrastructure to effectively obtain agriculture insurance products.

- Lack of awareness of agriculture insurance among the low-income segments, and lack of public confidence towards the agriculture insurance market.
 - Lack of relevant human resources in rural areas, and insufficient adequate auxiliary services, such as agriculture technicians, weather stations, and others.
 - Commercial insurers' lack of interest, due to geographical and infrastructural constraints, lack of know-how, and farmers' low and irregular income.
 - Moral hazard and fraudulent claims are not uncommon.
- Concerning crop insurance that constitutes only 5% of the total sum insured, there are difficulties in accurately assessing risks, input costs and losses related to crop production.

Recent Developments in Agriculture Insurance

Some of the recent developments in advancing the agriculture insurance in Nepal include the revisions in processes for crop and livestock insurance policies, increasingly preparing and issuing demand-based policies, and developing production-oriented insurance policies. Also, as part of a comprehensive awareness campaign, there have been increasing interactions of different local-level institutions and related organizations.

Way forward

Despite the state subsidies, **the penetration of agriculture insurance is lower than other non-life insurance portfolios.** To ensure that farmers could more effectively plan and produce, the following is proposed for agriculture insurance in Nepal:

- Capacity-building for non-life insurers involved in agriculture insurance, and relevant human resource development more broadly.
- Enhancing supervision and monitoring mechanisms.
- Revisioning of existing policies and encouraging production-based crop insurance and need-based product design.
- Agriculture insurance literacy programs and training.
- Developing a more effective client protection scheme and claims settlement mechanism, together with more effective delivery channels and infrastructure improvement.



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