

EMERGING ISSUES OF MOTOR INSURANCE IN NEPAL

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ABSTRACT

This study delves into the emerging challenges encountered within the motor insurance sector of Nepal, focusing on issues faced by the marketing, underwriting, and claims departments. With the backdrop of regulatory directives guiding motor insurance policies, including the mandatory requirement of third-party coverage, this research explores the dynamics influencing the distribution, assessment, and settlement of motor insurance policies. Through a theoretical framework highlighting perceived attributes, perceived risk, and compatibility, alongside insights from existing literature, the study aims to elucidate the intricacies of challenges faced by the industry. Employing a mixed-method approach involving semi-structured interviews and questionnaires, data was gathered from a diverse sample representing different stages of the insurance process. Analyzing responses from 60 participants, the study reveals nuanced challenges in marketing, underwriting, and claims departments. The findings underscore the significance of addressing these challenges to enhance operational efficiency and customer satisfaction within the motor insurance sector of Nepal.

Keywords: *Underwriting, motor insurance, claims, challenges, marketing.*

1. INTRODUCTION

Insurance serves as a vital shield for both assets and individuals, effectively transferring the burden of risk from policyholders to insurance companies. This arrangement offers financial protection against potential losses arising from unpredictable situations. Insurance isn't just to reduce financial losses but also to give peace of mind to the person buying the insurance policy.

In recent times, the appeal of insurance has grown significantly as people are becoming more aware about the uncertainties such as natural calamities, accidents, health issues and more. As a result insurance companies are actively focused on expanding the range of products and services they offer. Since insurance is a business, it charges premiums to policyholders based on factors like property value and different types of risks involved.

1.1 Introduction to Motor Insurance

Insurance, which involves transferring risk from one party to another, is categorized in Nepal as life and non-life insurance. Non-life insurance further divides into motor and non-motor insurance, offering various products such as machinery breakdown, fire insurance, student medical

insurance, and more.

This report focuses on motor insurance policies in Nepal. Non-life insurance, including motor insurance, plays a crucial role in the country's economy. The government mandates third-party insurance for vehicles, presenting opportunities for insurance companies. Motor insurance is regulated by Nepal Insurance Authority, with insurers adhering to the standard motor tariff outlined in the (Motor Insurance Directive, 2073).

Motor insurance provides protection against accidents during vehicle operation or while parked. Policyholders can claim compensation by submitting necessary documents, and insurers follow a standardized process for claim assessment. Overall, motor insurance in Nepal contributes significantly to both road safety and the insurance industry's growth.

1.2 Motor Insurance in Nepal

In the context of Nepal, currently motor insurance policy is guided by the Motor Insurance Directive 2073 which came into effect from 16th July 2016 A.D. regulated by Nepal Insurance Authority (Previous: Beema Samiti).

So, Insurance companies need to issue the policy with 2 determined coverage by the regulator body. In general, Motor Insurance is categorized into Motorcycle, Private Car, Commercial Vehicle. Under all categories there are some sub categories like in motorcycle and Private Car it sub categorized as Governmental or Non Governmental, Electric Vehicle. Similarly in Commercial it is sub-categorized as Electric, Governmental or Non-Governmental, Passenger Carrying Vehicle, Goods Carrying Vehicle, Taxi, Tanker, Trailer, Trolley, Tempo, Agriculture and Forestry Vehicle, Tractor, Power Triller, Construction Equipment Vehicle.

On 2009 September 01, third party insurance coverage was made compulsory. This rule was made by the vehicle owner to drive the vehicles only after covering the third party coverage. Due to which, every vehicle should be covered by a third party insurance policy and consequently, this made competition in insurance very high in the industry. But comprehensive insurance is not compulsory. The insured can issue the comprehensive policy as per their need. Either Third party or Comprehensive, both kinds of insurance policies are issued under the rules and regulation mentioned in the Motor Insurance Directive, 2073. Insurers are not allowed to make any kind of changes on the insurance policy.

In Nepal, the first Motor Insurance Directive, 2063 was issued in 2006 A.D., In that time there were only limited vehicles and Third parties with passenger coverage were not made compulsory so again in 2009 A.D. A new Motor insurance directive 2066 was introduced where Third Party coverage was made mandatory, vehicle staffs with death sum insured of Rs. 500,000.00 and medical expenses upto 200,000.00 were covered. The new directive seems to be effective for the scenario of that time but coverage for passengers was only Rs. 100,000.00 both for death and medical expenses.

This created some differences between the coverages on vehicle staff, passengers and third parties. As a result Nepal Government declared in Fiscal Year 2073/074 to provide equal coverage to passengers, the same as vehicle staff.

As a result Nepal Insurance Authority issued a new 'Motor Insurance Directive, 2073' in 2016 A.D. with the coverage of Rs. 500,000.00 on death and Rs. 300,000.00 on medical expenses for both vehicle staff and vehicle passengers.

1.3 Emerging issues of Motor Insurance in Nepal

With the passage of time, various innovations have been adopted in motor insurance by the insurance companies. Either in underwriting or in claims, different changes have been seen. With the changes in innovation, insurers have been facing various issues day by day. So, this study is made to find out those issues on motor insurance that

departments like underwriting, marketing and claims department has been facing.

- a. Issues in marketing department
- b. Issues in underwriting department
- c. Issues in claims department

Since there are lots of issues on motor insurance of Nepal, we are going through some of the issues that each department has been facing while collecting information, issuing policies and settling the claims.

A. Before Issuing motor insurance

The insurance service can be sold in different ways, or it can be distributed to potential insurers in several ways. As stated by Ćurčić et al., 2019, all the means of distribution of the insurance service could be classified into three groups:

- i. Sales of insurance through its own sales network of insurers
- ii. Sales of insurance through insurance agents
- iii. Sales of insurance through insurance brokers.

From the very beginning of issuing policy a person in the marketing department deals with several issues. Insurance, is therefore not always desired per se, but is a means to satisfy other wants and needs (Ehrlich & Becker, 1972) .

As discussed above, third party coverage in motor insurance has been made mandatory in Nepal, insured need to cover third party benefits from the very beginning of purchase date of the vehicle. This has made it slightly difficult for the insured to think about their needs and choices. Although it is easier to sell third party products for the marketing employees, there is huge competition among the insurers to grab the business.

B. While underwriting the motor insurance

General Insurance companies underwrite numerous types of policy. As per month insurance data of "Nepal Insurance Authority Mid February 2024, Non-life insurers" have issued 1,004,668 numbers of motor insurance policy which is approximate 60 percent of total numbers of policies issued by the insurance companies which collects total premium of NRs. 7,295,932,000.00 in motor insurance and this approximately 32 percent of total premium (Authority, n.d.). This shows that the underwriting department issued the highest number of policies for motor insurance in comparison to other portfolios. Underwriting is the selection and rating of risks by the insurer (Fitrah et al., 2023). This explains that like other portfolio underwriters need to select the risk and rate on the basis of risk associated with that property. Magri et al., (2019) contends that motor risks are under his close watch due to a number of reasons. First, motor insurance,

particularly third party risks, is compulsory.

Secondly, companies that have collapsed have been motor underwriters. Premiums charged must be able to service claims, company expenses and commission to the agents as well as return a little element of profit for the company. This states the importance of closely monitoring motor risks in insurance due to their mandatory nature, historical association with insurer collapses, and the need for premiums to cover expenses and generate profit. Underwriters must manage these risks effectively to ensure financial stability and sustainability.

C. During claims of motor insurance

In a service industry such as insurance, contact employees are the face of the organization, and can directly influence customer satisfaction (Zeithaml & Bitner, 2003). As stated in the insurance industry, employees are crucial as they directly interact with customers, focusing on their needs. They influence satisfaction by serving customers by effective service and prompt responses. More importantly, they are the face of the company, impacting how customers perceive and experience the brand. Being a highest policy issuing portfolio “Nepal Insurance Authority Mid February 2024, Non-life insurers”, claim employees face numbers of issues day by day. They need to convince and satisfy the claimant by solving those issues. Besides that, the insurer deals with various fraudulent claims. The insurer has a right to decline a claim if fraud is proved, as it amounts to breach of one of the basic principles of insurance, the principle of Utmost Good Faith (Bennett, 2004). Therefore, the claim department deals with numerous challenges which are to look after.

2. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1 Theoretical Framework

The conceptual framework below illustrates the interaction between predictor and dependent variables helps to establish the association of perceived attribute, perceived risk, and compatibility that user feels with technology and the diffusion of mobile banking.

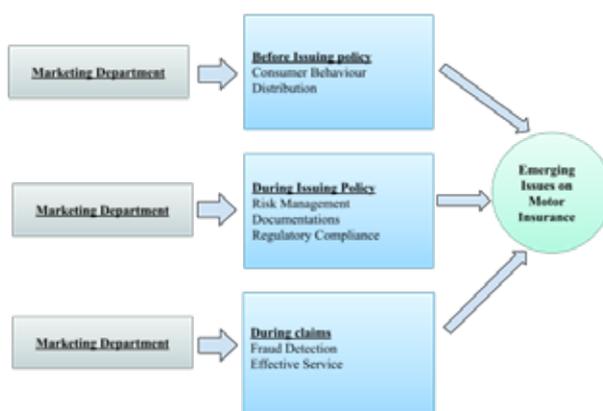


Figure 1: Theoretical Framework

The figure shows that the marketing department has issues understanding the customer behavior and distribution of policy to the consumer. As the demand and competition are increasing consumer behavior is also changing with limited insurance in the marketplace creating a prime issue in the marketing department. Similarly, in the underwriting department, key challenges are getting the proper documentation from the customers, risk management, and changes in regulatory compliance. In the case of the claim department, fraud detection and effective service are emerging issues.

2.2 Finding from other literature

A challenge can be described as a new or difficult task that tests a person’s ability and skills (Hornby & Wehmeier, 2005) which elaborates that it is the demanding task which can be solved by the skills and ability of a person. The value chain can be classified into two broad categories; primary activities and support activities (Viljoen & Dann, 2003). For an insurance company, the primary activities can be identified as Marketing, Underwriting and Claims. On the other hand, the support activities can be identified as Human Resources, IT, Finance etc. Odoyo and Nyangosi (2011) stated that the technological advances place in the hands of insurance companies and agents, the tools to bring new savings and better services to the consumers. Additionally, Cheng and Zarifis (2023) reveals that use of new technology would smooth the scalability in insurance.

3. RESEARCH METHODOLOGY & DATA

Semi-structured personal interviews and questionnaires are being employed to gather primary data on the emerging challenges faced by the motor insurance sector in Nepal. The survey includes multiple-choice questions utilizing a five-point Likert scale, prompting respondents to indicate their level of agreement from “Strongly Disagree” to “Strongly Agree.” Initially, an online survey questionnaire was distributed to 80 individuals comprising working professionals, who were categorized into groups corresponding to various stages of the insurance process: before issuing a policy, during issuing a policy, and during claims. The total of 60 responses completed the google form were utilized for data analysis. Following the collection of raw data, it was encoded, and software tools such as SPSS and Excel were utilized to conduct both descriptive and inferential analyses.

4. RESULTS AND DISCUSSION

The targeted respondent was from various general insurance companies of Nepal. Out of 80 targeted respondents 60 of the respondents fill out the survey form. The response rate was 75% which is considered

satisfactory (Mugenda & Mugenda, 2003).

Table 1: Department

Department of the Respondent		
	Frequency	
Underwriting	35	58.3
Claim	15	25.0
Marketing	10	16.7
Total	60	100

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The above Table depicts the respondent frequency and percentage of the department. It suggests that the data are more based on the Underwriting Department. Similarly, the respondent proportion of male is greater than females. The majority of respondents have 5 years or above experience.

Kau et al., (2018) state that descriptive statistics outlines the data by explaining the relation with variables in the data systematically. For this study, we used the Likert Scale to measure central tendency (mean, median, and standard deviation). The mean varies from 2.5 to 4.67, the median varies from 2.50 to 5, and the standard deviation ranges between 0.000 to 1.581. The insurance sector lacks advanced technologies. Thus, the survey indicates that the upshot of new products with the help of advanced technology will create trust and increase competition in the market. Most of the respondents with most of the respondents believing that the surveyor assessment, technology, and claim settlement process are the prime challenges in motor insurance. For the proper interpretation of the response and variables, we used Pearson correlations that were categorized into negative and positive in this study (Li et al., 2023). The Pearson correlation suggests that there is a significant correlation between the department and the collection of necessary documents in motor insurance. As the customer does not provide the essential document it affects the claim department for the claim process. Also, as fraudulent claims rise, it affects the department for the settlement

process and marketing. Moreover, the marketing department is affected by word of mouth regarding claims and trust.

According to Johan et al.,(2023), regression analysis increases the reliability of the challenges estimation and decreases the risk. It usually analyzes the one-to-one relationship degree and also the whole. This study states that there is a positive significance between the department and obtaining necessary documents from the customer as the t-value is 2.076 and the p-value is 0.042. Thus, we can say that the insurance companies have difficulty in acquiring the documents from customers. Additionally, the model also indicates the positive impact of regulatory provision volatility on the department as its sudden change in the motor insurance can affect the department.

5. CONCLUSION

In conclusion, we can say that every department that is Marketing, Underwriting, and Claims is dealing with various challenges on a day-to-day basis. The department deals with different kinds and natures of issues. The various analysis under the Claim, Underwriting, and Marketing departments shows some unignorable insights. Especially in marketing and claim departments, there is a noticeable dissatisfaction with the claim assessed by the Surveyor. Besides that, there is hardly any debate regarding the stability of regulatory provisions in motor insurance, indicating a need for innovation and adaptation to meet evolving customer needs. The prime issues of the survey are fraudulent claims and technological disruption. Furthermore, all three departments are facing challenges due to the lack of awareness of the customers regarding policy coverages and the documentation process during issuing insurance policies and during settling the claims. Despite variations in dispersion among departments, there is a shared recognition of the importance of addressing these challenges to improve overall satisfaction and efficiency within the insurance company. Future efforts should focus on enhancing the claim settlement process, fostering innovation in product development, and implementing strategies to mitigate fraudulent activities, thereby enhancing trust and reliability in the motor insurance sector.

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Appendix A: Questionnaire

GOOGLE FORM QUESTIONNAIRE

MOTOR INSURANCE CHALLENGES IN NEPAL

Please take a few minutes to fill out the survey form to know the Emerging Issues of Motor Insurance in Nepal. I want to assure you that all of your answers will be kept strictly confidential and are to be used as data for this survey. There are no right or wrong answers. The questionnaire takes approximately 2-3 minutes to complete.

Part A: Demographic Profile

1. Name
2. Company Name
3. Gender: a. Male b. Female
4. Education a. Intermediate b. Bachelor c. Master Degree d. Phd and above e. Others

5. Department a. Marketing Department b. Underwriting Department c. Claim Department
6. Designation a. Assistant level b. Officer level c. Managerial level d. Above
7. Work Experience a. Less than a year b. 1-2 years c. 2-3 years d. 5 years and above

Part B: Open-End Opinion

1. What do you perceive as the biggest emerging challenge in motor insurance under your department? Please specify in detail*

Answer.....

2. How do you view the challenges related to the documentation process in your department? Please specify in detail*

Answer.....

3. What do you think is the primary factor contributing to rising motor insurance premiums? Please specify in detail*

Answer.....

4. What is the biggest obstacle for motor insurance companies in terms of customer satisfaction? Please specify in detail*

Answer.....

5. What do you believe will have the most impact on motor insurance premiums in the next 5 years? Please specify in detail*

Answer.....

Part C: Opinion Statement

Please specify your level of agreement and disagreement associated with the following statement based on current challenges of motor insurance in Nepal.

1. Please make a tick mark in the appropriate box as per the statement. (Key: 1= Strongly Disagree, 2 = Disagree, 3= Neutral, 4 = Agree, and 5 = Strongly Agree)

S.No.	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	I think that there is lack of awareness on the market in regard of motor insurance.					
2.	I think that there should be development in innovative products in motor insurance.					
3.	I feel that as per the customer needs the product should be changed.					
4.	I think that there is increase in competition.					
5.	I think vehicle owner and driver are different person in commercial vehicle.					
6.	I feel regulatory provision is volatile in motor insurance.					
7.	I feel there is technology disruption.					
8.	I feel that customer have less trust on motor insurance.					
9.	I think premium rate for motor insurance is high.					
10.	I think that fraudulent claims are major issue in motor insurance.					
11.	I think customer feel uncomfortable to share their documents to issue policy.					
12.	I feel that claim assessed by surveyor is satisfactory.					

Note: *Required

Thank you so much for your time in completing our survey.