DOI: 10.58665/NJISS

Crossref OPEN ACCESS

Original Research Article

Financial Literacy and Life Insurance Purchase Intention in Nepal: Mediating Influence of Insurance Advisors

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Article History

Received on - August 16, 2025
Revised on - September 19, 2025
Accepted on - November 17, 2025

Keywords:

Financial literacy; insurance advisors; life insurance purchase intention; mediation; structural equation modeling

Online Access

DOI: https://doi.org/10.58665/njiss.94

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How to Cite APA Style

Thapa, B. K., & Paudel, R. R. (2025). Financial literacy and life insurance purchase intention in Nepal: Mediating influence of insurance advisors.. *Nepalese Journal of Insurance and Social Security, 8*(2), 57–65. *https://doi.org/10.58665/njiss.94*

Abstract

Purpose: This study investigates how financial literacy (knowledge, skills, attitudes, and behavior) influences life insurance purchase intention in Nepal and examines the mediating role of insurance advisors among the policyholders in Nepal.

Design/methodology/approach: Guided by a positivist philosophy and deductive reasoning, the study employs an explanatory research design. Data were collected from 413 purposively sampled life insurance policyholders using a structured questionnaire. Structural Equation Modeling (PLS-SEM) was applied to assess both direct and mediating relationships while ensuring the reliability and validity of constructs.

Findings: The results indicate that financial literacy significantly enhances insurance advisor engagement and directly impacts purchase intention. Moreover, insurance advisors strongly mediate the relationship between financial literacy and purchase intention.

Conclusion: The findings highlight that strengthening financial literacy alone is not sufficient to drive life insurance adoption in Nepal; rather, its effectiveness is substantially enhanced when complemented by active engagement with insurance advisors.

Implications: The findings emphasize the need for policymakers and insurers to promote financial education and expand access to professional advisory services to increase life insurance adoption.

Originality/value: This research identifies insurance advisors as a pivotal mediating factor, filling a key conceptual and empirical gap in the literature on financial literacy and insurance behavior in low-penetration markets.

JEL Classification: G22, D14, I31

Introduction

Life insurance plays a fundamental role in enhancing household financial security by protecting families against income shocks, facilitating long-term financial planning, and supporting intergenerational wealth transfer (Wang & Liu, 2024). At the macro level, a well-functioning life insurance sector contributes to financial deepening and economic stability by mobilizing long-term savings and supporting capital markets (Outreville, 2015; Alsubaie, 2025). Despite these benefits, life insurance penetration remains uneven across countries, with particularly low uptake in many developing economies. In South Asia, this disparity is pronounced: while countries such as India and Sri Lanka have experienced sustained growth in life insurance adoption, Nepal continues to record relatively low penetration, even as access to financial services and insurance infrastructure has expanded (Nepal Insurance Authority, 2023). This persistent gap highlights a critical policy and research problem: why increased financial access has not translated into stronger life insurance purchase intention in Nepal.

Life insurance purchase intention, defined as an individual's willingness or likelihood to purchase a policy in the future, is shaped by a complex set of economic, cognitive, and behavioral factors (Bhatia et al., 2021). Prior studies identify financial awareness, risk perception, trust, and attitudes as important predictors of insurance demand (Kamalul Ariffin et al., 2018; Jaspersen et al., 2022). However, existing empirical evidence from developing economies remains fragmented and often descriptive, offering limited explanatory power regarding how consumers form purchase intentions in low-trust, information-constrained markets such as Nepal. More importantly, most studies treat financial literacy as a narrow or unidimensional construct, typically measured through basic financial knowledge, overlooking the broader behavioral and attitudinal components that shape real-world financial decisions.

Recent advances in consumer finance research conceptualize financial literacy as a multidimensional construct comprising financial knowledge, financial behavior, financial attitude, and financial skills (OECD, 2018; Ghimire et al., 2023). Each dimension contributes uniquely to insurance decision-making: knowledge enables understanding of policy terms and risk coverage; behavior affects budgeting and premium payment discipline; attitude reflects long-term planning orientation and risk tolerance; and skills support comparison and evaluation of alternative insurance products (Alli et al., 2025). While this multidimensional view is increasingly accepted, empirical studies on life insurance adoption, particularly in emerging markets, rarely operationalize financial literacy as a higher-order construct. This represents a significant conceptual limitation, as isolating individual dimensions may underestimate their joint and interactive effects on purchase intention.

The challenge of translating financial literacy into actual insurance demand is further amplified in Nepal due to product complexity, limited transparency, and persistent distrust toward insurance institutions (Chand, 2024; Ghimire et al., 2024). These structural weaknesses elevate the importance of insurance advisors as key market intermediaries. In practice, advisors serve not only as distribution agents but also as information brokers who interpret policy features, assess household financial needs, and reduce uncertainty during the decision-making process (Lai, 2016). From a broader corporate social responsibility (CSR) perspective, such intermediary roles are central to promoting ethical information dissemination, responsible decision-making, and financial inclusion, particularly in contexts characterized by information asymmetry and low institutional trust (Aryal et al., 2025; Sthapit et al., 2025). Evidence from emerging markets suggests that advisor interaction can significantly influence consumer confidence and financial choices, particularly where literacy levels and institutional trust are low. However, empirical research examining the mediating role of insurance advisors in the relationship between financial literacy and life insurance purchase intention remains scarce.

This gap is particularly evident in the Nepalese context. Despite the growing reliance on advisor-based distribution channels, there is limited empirical evidence assessing whether advisors function as effective facilitators of informed decision-making or merely as sales-driven intermediaries. Existing studies in Nepal largely focus on awareness levels, demographic factors, or descriptive demand patterns (Ghimire & Dahal, 2024; Joshi et al., 2024), with little attention to the behavioral mechanisms through which financial literacy is converted into purchase intention. Moreover, prior research seldom employs mediation models or higher-order constructs, limiting both theoretical integration and methodological rigor.

From a theoretical perspective, behavioral decision-making frameworks suggest that financial attitudes, perceived control, and information asymmetry jointly influence insurance purchase intention, while intermediaries play a critical role in bridging the gap between knowledge and action (Ajzen, 1991; Kahneman & Tversky, 1979; Akerlof, 1970). Yet, empirical models that simultaneously integrate multidimensional financial literacy and advisor mediation within a single framework are largely absent, particularly in low-penetration insurance markets. This omission constrains the development of evidence-based policies aimed at improving insurance inclusion.

Against this backdrop, the present study addresses three interrelated gaps in the literature. First, it responds to a conceptual gap by operationalizing financial literacy as a higher-order construct encompassing knowledge, behavior, attitude, and skills. Second, it addresses an empirical gap by examining life insurance purchase intention in Nepal, a low-penetration, trust-constrained market that remains underrepresented in international insurance research. Third, it fills a methodological gap by explicitly testing the mediating role of insurance advisors, thereby clarifying whether and how advisory services translate financial literacy into purchase intention.

Thus, by adopting a higher-order modeling approach and a theory-informed mediation framework, the study provides a more nuanced explanation of insurance decision-making than existing unidimensional or descriptive models. Practically, the findings generate actionable insights for regulators, insurers, and policymakers seeking to strengthen insurance penetration through improved financial capability and advisory effectiveness.

Literature Review

Theoretical Underpinning

This study is primarily grounded in the Theory of Planned Behavior (TPB), which explains insurance purchase intention through attitudes, subjective norms, and perceived behavioral control (Ajzen, 1991; Achmadi et al, 2024; Fishbein & Ajzen, 1975). In the Nepalese context, perceived behavioral control is particularly salient, as consumers often feel uncertain about selecting appropriate insurance products due to limited financial capability and complex policy structures. Financial literacy, especially financial attitudes and budgeting behavior, directly strengthens perceived control and positive evaluations of life insurance, thereby shaping intention (O'Connor & Kabadayi, 2020). However, purely rational models are insufficient to explain observed insurance decisions, as individuals frequently deviate from optimal choices despite possessing basic financial knowledge. Behavioral finance perspectives highlight that cognitive biases and short-term preferences often weaken long-term insurance planning, reinforcing the need to move beyond strictly rational intention models (Hirshleifer, 2015).

Insurance advisors address these behavioral and informational limitations by reducing information asymmetry and facilitating informed decision-making in markets characterized by low transparency and trust. Acting as intermediaries, advisors translate complex policy information, build credibility, and influence how financial literacy is converted into purchase intention.

Empirical Review and Hypotheses Development

Life Insurance Policy Purchase Intention: A growing body of empirical research has examined the determinants of life insurance purchase intention, emphasizing the interaction between psychological, economic, and informational factors. Tewari (2024) integrates behavioral components, attitude, subjective norms, and perceived behavioral control, with economic considerations such as saving motives and risk aversion, positioning financial literacy and sociodemographic characteristics as intervening variables in the Indian context. Similarly, Gurung et al. (2025), drawing on behavioral economics, demonstrate that attitude, subjective norms, and saving motives significantly influence life insurance purchase intention, with persuasive mechanisms mediating these relationships. Earlier studies by Nomi and Sabbir (2020) provide foundational insights into consumer decision-making processes in life insurance, highlighting the role of behavioral and cognitive factors in shaping purchase behavior. Complementing this perspective, Bhatia et al. (2021) offer a comprehensive examination of individual-level determinants influencing life insurance purchase intention in India, while also documenting how premium pricing and broader economic conditions shape consumers' willingness to purchase coverage. Collectively, these studies emphasize that life insurance purchase intention is not driven by economic rationality alone but emerges from a complex interaction of behavioral attitudes, financial capability, and market conditions, thereby justifying more integrated and theory-informed empirical models.

Financial Literacy, Insurance Advisors, and Life Insurance Policy Purchase Intention: Empirical evidence consistently demonstrates that financial literacy is a significant determinant of life insurance purchase intention. Studies conducted in Nepal and comparable markets show that financially literate individuals exhibit more favorable attitudes toward life insurance and stronger purchase intentions, as they are better able to evaluate policy features, risks, and long-term benefits (Dhodary, 2023; Bhatia et al., 2024). Research in rural and emerging-economy contexts further confirms that financial literacy, together with informed decision-making behavior, significantly predicts insurance purchase intention (Apiag et al., 2025). Among the components of financial literacy, insurance-specific knowledge has been found to exert the strongest influence, highlighting the importance of understanding policy coverage, premiums, and risk protection mechanisms in shaping purchase decisions (Lin et al., 2017).

Insurance advisors play a critical role in translating financial literacy into actual purchase behavior. Prior studies indicate that advisor consultation increases life insurance uptake by reducing information complexity, personalizing policy recommendations, and mitigating cognitive biases that hinder long-term financial decisions (Lin et al., 2017; Bhatia et al., 2024). By building trust and clarifying policy information, advisors address confidence gaps that persist even among financially knowledgeable individuals, thereby facilitating informed and timely purchase decisions (Tewari, 2024). Accordingly, insurance advisors function not merely as sales agents but as intermediaries who bridge financial knowledge and behavioral intention, particularly in low-literacy and low-trust insurance markets such as Nepal (Dhodary, 2023).

H1: Financial literacy has a significant positive effect on life insurance policy purchase intention.

H2: Financial literacy has a significant positive effect on the effectiveness of insurance advisors.

Insurance Advisors on Life Insurance Policy Purchase Intention: Prior empirical studies consistently highlight the pivotal role of insurance advisors in shaping life insurance purchase intention. Evidence shows that advisor involvement significantly enhances consumer trust, confidence, and positive attitudes toward life insurance, thereby increasing purchase likelihood (Nomi & Sabbir, 2020). Agent influence, perceived service quality, and value clarification have been identified as strong predictors of policy adoption, highlighting the effectiveness of personalized advice in simplifying complex insurance products (Thamtarana & Sornsaruht, 2024). Moreover, financial advisors help bridge the gap between financial literacy and purchase intention, particularly among individuals who possess basic knowledge but lack confidence to act (Lin et al., 2017). Collectively, these findings establish insurance advisors as critical behavioral and informational mediators in transforming financial understanding and perceived benefits into actual life insurance purchase behavior.

H3: Insurance advisors have a significant positive effect on life insurance policy purchase intention.

Mediating Role of Insurance Advisor: Individuals with higher financial literacy are better equipped to evaluate and compare life insurance policies; however, financial knowledge alone often fails to translate into actual purchase decisions due to product complexity and long-term commitment requirements (Huston, 2010; OECD, 2018). In such contexts, insurance advisors play a critical role by reducing information asymmetry, clarifying policy features, and building trust, particularly in low-literacy and emerging markets (Akerlof, 1970; Hankede & Mwelwa, 2024). Empirical evidence shows that advisors act as behavioral intermediaries, mediating the influence of socio-cultural factors, persuasion, and trust on insurance adoption (Lin et al., 2017; Low & Fekete-Farkas, 2021; Thapa & Paudel, 2025). However, conflicting findings suggest that advisors may also function as commission-driven agents, raising concerns about credibility and client alignment (Jensen & Meckling, 1976; Weedige et al., 2019). This ambiguity highlights the need to empirically examine the mediating role of insurance advisors between financial literacy and life insurance purchase intention in emerging markets.

H4: Insurance advisors significantly mediate the relationship between financial literacy and life insurance policy purchase intention.

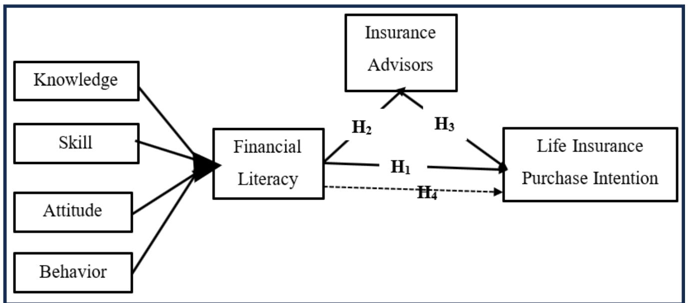

Figure 1: Conceptual Framework

Methods

This study adopts a quantitative, explanatory research design to test hypothesized causal relationships among financial literacy, insurance advisors, and life insurance purchase intention. Grounded in a positivist paradigm, the analysis follows a deductive approach informed by established theory and prior empirical evidence (Creswell & Creswell, 2018). A cross-sectional survey was conducted among life insurance policyholders in Nepal, capturing responses at a single point in time.

Data were collected from 413 policyholders using purposive sampling, ensuring that respondents possessed relevant experience with life insurance products. The sample size was determined using Cochran's (1977) formula and is adequate for statistical inference. Primary data were gathered through a structured questionnaire administered both online and offline between March to May, 2025. Measurement items for financial literacy, conceptualized as a higher-order construct comprising knowledge, skills, attitude, and behavior, were adapted from Bogomin et al. (2018), while scales for insurance advisors and purchase intention were drawn from Thapa and Paudel (2025). The data were analyzed using SmartPLS 4, suitable for examining complex structural relationships and mediation effects. Following the two-step process recommended by Hair et al. (2019), both the measurement model and the structural model were assessed.

Result and Analysis

Reliability and Validity

The results of the measurement model are presented in Table 1, including outer loadings, reliability, and validity statistics for all constructs. Outer loadings range from .80 to .90, exceeding the recommended threshold of .70, indicating sufficient indicator reliability (Hair et al., 2022; Henseler et al., 2015). Internal consistency reliability is strong, with Cronbach's alpha values above .87 and composite reliability coefficients (rho_A and rho_C) exceeding .88 (Hair et al., 2022; Nunnally & Bernstein, 1994). Convergent validity is confirmed, with average variance extracted (AVE) values ranging from .67 to 0.78, well above the .50 benchmark (Fornell & Larcker, 1981). Multicollinearity was assessed using the variance inflation factor (VIF), and all values were below 3.30, indicating no multicollinearity issues (Hair et al., 2022). These results demonstrate that the measurement model exhibits high reliability, convergent validity, and independent indicators across all constructs, including financial knowledge, financial skill, financial attitude, financial behavior, insurance advisor, and life insurance policy purchase intention.

In addition, Harman's single-factor test indicated that the first factor explained 47.7% of the variance, below the 50% threshold, suggesting that common method bias is unlikely to affect the results (Podsakoff et al., 2003).

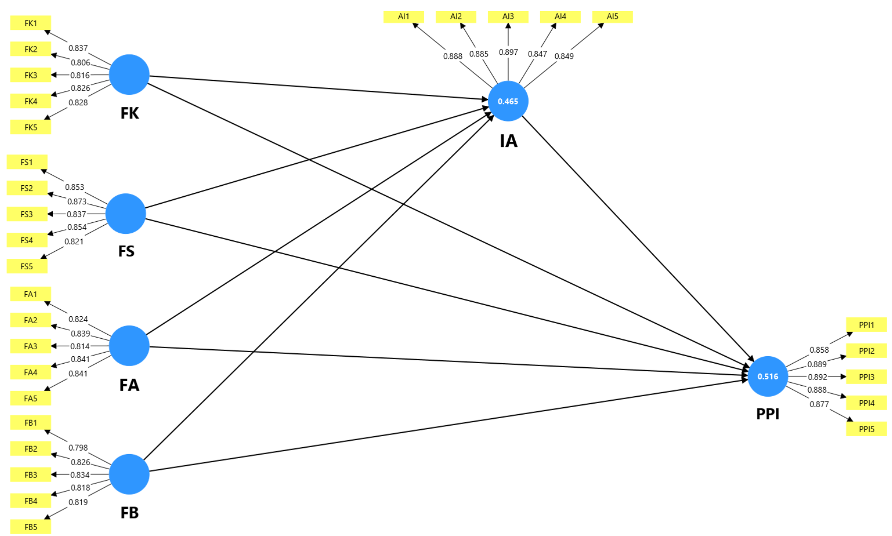

Figure 2: Measurement Model

Table 1: Measurements

Constructs	Indicators	Outer loadings	Cronbach's alpha	CR (rho_a)	CR (rho_c)	AVE	VIF
Financial Knowledge	FK1	.84	.88	.88	.91	.68	2.30
	FK2	.81					2.10
	FK3	.82					2.11
	FK4	.82					2.39
	FK5	.83					2.10
Financial Skill	FS1	.85	.90	.90	.93	.72	2.73
	FS2	.87					3.12
	FS3	.84					2.56
	FS4	.86					2.69
	FS5	.82					2.01

Financial Attitude	FA1	.82	.89	.89	.92	.69	2.10
	FA2	.84					2.26
	FA3	.82					2.07
	FA4	.85					2.45
	FA5	.84					2.17
Financial Behavior	FB1	.80	.88	.88	.91	.67	1.91
	FB2	.83					2.15
	FB3	.83					2.09
	FB4	.82					2.19
	FB5	.82					2.38
Insurance Advisor	IA1	.89	.92	.92	.94	.76	3.06
	IA2	.89					2.97
	IA3	.90					3.28
	IA4	.85					2.45
	IA5	.85					2.45
Policy Purchase Intention	PPI1	.86	.93	.93	.95	.78	2.53
	PPI2	.89					3.10
	PPI3	.89					3.21
	PPI4	.89					3.22
	PPI5	.88					2.89

Table 2 presents the Fornell-Larcker criterion to assess discriminant validity. According to this criterion, the square root of the AVE for each construct should exceed its correlations with other constructs (Fornell & Larcker, 1981). In this study, the diagonal AVE square roots range from .82 to .88, all higher than the corresponding inter-construct correlations, confirming discriminant validity.

Table 2: Fornell-Larcher Criterion

	FA	FB	FK	FS	IA	PPI
FA	.83					
FB	.69	.82				
FK	.71	.75	.82			
FS	.58	.60	.62	.85		
IA	.57	.65	.59	.51	.87	
PPI	.50	.57	.52	.47	.69	.88

Table 3 presents the Heterotrait-Monotrait (HTMT) ratios to assess discriminant validity among constructs. The HTMT values range from .51 to .85, all below the conservative threshold of .90, confirming that the constructs are distinct (Henseler et al., 2015). (FS), financial attitude (FA), financial behavior (FB), insurance advisor (IA), and policy purchase intention (PPI), capturing unique aspects of the study.

Table 3: HTMT Ratio

	FA	FB	FK	FS	IA	PPI
FA						
FB	.78					
FK	.81	.85				
FS	.64	.67	.69			
IA	.63	.72	.66	.55		
PPI	.55	.64	.57	.51	.75	

Higher Order- Measurement Model

The validation of the higher-order Financial Literacy construct shows that all lower-order components, knowledge, skill, attitude, and behavior, exhibit VIF values below 5, indicating low multicollinearity, and demonstrate significant outer weights above .50, confirming their contribution to the construct. These findings align with Hair et al. (2017) and Sarstedt et al. (2021), supporting the validity of formative higher-order constructs when multicollinearity is low and indicator weights are significant.

Table 4: Higher Order Construct Validation of Financial Literacy

HOC	LOCs	Redundancy Analysis (Path Coefficient)	VIF	Outer Weights	T Statistics	P Values	Outer Loadings
Financial Literacy	Knowledge	.81	2.88	.19	1.43	.032	.87
	Skill		1.79	.19	2.49	.013	.76
	Attitude		2.37	.20	1.34	.011	.83
	Behavior		2.66	.55	3.80	.000	.95

Structural Model

The assessment of the inner model was carried out using a bootstrapping technique with a resample of 10,000. Mainly, the inner model was investigated to test the hypothesis. At the beginning, the Coefficient of determination (R^2), effect size (f^2), and Q-square were calculated, and finally, the hypothesis was tested.

Table 5: Model Explanatory Power and Predictive Relevance of Financial Literacy

Independent Variable	Dependent Variable	R^2	f^2	Q^2
Financial Literacy	Life Insurance Purchase Intention	.52	.30	.35
Financial Literacy	Insurance Advisor	.47	.87	.44

The R^2 values of .52 and .47 indicate moderate explanatory power, exceeding the commonly accepted threshold of .25 (Hair et al., 2017), which suggests that Financial Literacy substantially explains both Life Insurance Purchase Intention and Advisor Influence. The effect sizes (f^2) further show that Financial Literacy has a medium effect on Life Insurance Purchase Intention (.30) and a large effect on insurance advisor (.87), based on Cohen's (2013) guideline where .02 = small, .15 = medium, and .35 = large. Additionally, the Q^2 values (.35 and .44) surpass the recommended minimum of 0.00, confirming the strong predictive relevance of the structural model (Sarstedt et al., 2021).

Hypothesis Testing

Table 6 presents the path coefficients for the hypothesized relationships in the structural model. Financial literacy has a strong and significant positive effect on insurance advisor engagement (*β = .68, t = 11.48, p < .001*), indicating that higher financial literacy increases clients' reliance on advisors for informed decision-making. The direct effect of financial literacy on life insurance purchase intention is positive but moderate (*β = .25, t = 3.07, p < .01*), suggesting that financial literacy alone partially influences purchase decisions. Insurance advisor engagement exerts a substantial positive effect on purchase intention (*β = .52, t = 5.56, p < .001*), highlighting its critical role in shaping consumer behavior.

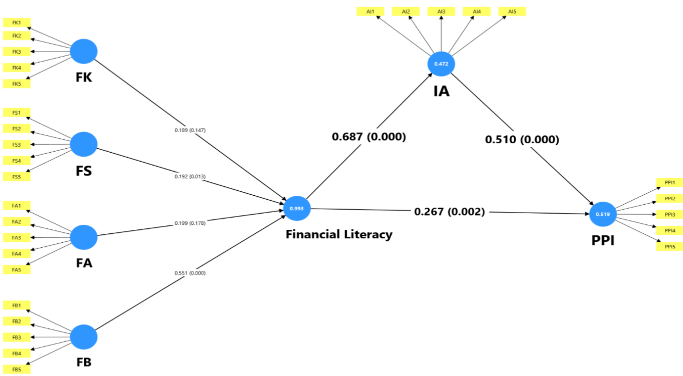

Figure 3: Path Analysis

Table 6: Direct Coefficient

Path	Original sample (O)	Sample mean (M)	SD	*t-Value*	*p-values*	LB	UB	Result
FL -> PPI	.27	.27	.08	3.07	.002	.10	.41	H1: Supported
FL -> IA	.69	.68	.06	11.48	.000	.53	.77	H2: Supported
IA -> PPI	.51	.51	.09	5.56	.000	.33	.69	H3: Supported

Table 7: Indirect Path Coefficient

	Original sample (O)	Sample mean (M)	SD	*t-Value*	*p-values*	LB	UB	Result
FL -> IA -> PPI	.35	.35	.07	5.07	.000	.22	.48	H4: Supported

Table 7 presents the indirect effect of financial literacy (FL) on life insurance purchase intention through insurance advisors. The results indicate a significant mediation effect (*β = .354, t = 5.07, p < .001*), confirming that insurance advisors play a critical intermediary role, effectively transforming financial knowledge, skills, attitudes, and behaviors into actionable purchase decisions, highlighting the importance of leveraging advisory services to enhance life insurance adoption.

Discussions

FL encompassing knowledge, skills, attitudes, and behaviors related to effective financial management (Huston, 2010) significantly influences both insurance advisor and life insurance purchase intention. Insurance advisor engagement refers to the guidance, support, and advice provided by professional intermediaries during the insurance decision-making process (Nomi & Sabbir, 2020), while life insurance purchase intention reflects an individual's deliberate decision to acquire a policy (Ajzen, 1991).

The findings reveal that higher financial literacy positively impacts both advisor engagement and purchase intention, consistent with the Theory of Planned Behavior, which posits that knowledge and attitudes shape behavioral intentions (Ajzen, 1991). Moreover, insurance advisors act as a critical intermediary, amplifying the effect of financial literacy on insurance adoption, in line with Financial Literacy Theory, which emphasizes that professional guidance mitigates behavioral biases and enhances decision-making (Lusardi & Mitchell, 2014). These results corroborate prior studies demonstrating that financially literate individuals are more likely to seek professional advice and make informed insurance decisions (Lin et al., 2017; Low & Fekete-Farkas, 2021; Dhodary, 2023; Thapa & Paudel, 2025). The mediating role of insurance advisors underscores the knowledge-action gap, indicating that financial literacy alone is insufficient to drive policy uptake without professional support. Thus, the study highlights that the combination of cognitive competence and expert advisory input is essential for improving life insurance purchase intention in emerging markets like Nepal.

Conclusion and Implications

This study examined the interplay between financial literacy, insurance advisor engagement, and life insurance purchase intention in Nepal. The findings indicate that financial literacy positively influences both advisor engagement and purchase intention, while insurance advisors serve as a critical mediator in translating financial knowledge, skills, attitudes, and behaviors into actual purchase decisions. This demonstrates that although financial literacy enhances awareness and intention, its impact on consumer behavior is significantly amplified when mediated through professional advisory services. These results align with the Theory of Planned Behavior (Ajzen, 1991), confirming that knowledge and attitudes influence behavioral intentions both directly and indirectly via intermediaries.

The study further supports the Financial Literacy Theory, highlighting that while individual financial literacy components contribute to insurance adoption, they are insufficient on their own; professional advisors are essential in bridging the gap between knowledge and action. Practically, the findings suggest that insurance companies should simultaneously enhance consumer financial literacy through targeted education campaigns and expand access to qualified advisors. Policymakers and financial educators can leverage these insights to design integrated interventions combining financial education and advisory services, particularly for young or inexperienced consumers. Moreover, empowering insurance advisors to provide personalized guidance can strengthen the literacy-to-action pathway, increase life insurance penetration, and foster financially responsible behaviors in emerging markets such as Nepal.

Limitations and Further Research

This study is limited to financial literacy and insurance advisor engagement as determinants of life insurance purchase intention. Future research could examine additional factors such as digital financial literacy, behavioral biases, cultural values, and social norms, particularly in emerging markets. Longitudinal studies would provide insight into the long-term effects of financial literacy and advisory interventions, while cross-country comparisons could highlight contextual variations in insurance uptake. Experimental or mixed-method designs could further capture the decision-making process and assess the effectiveness of tailored financial education programs. Finally, exploring the moderating role of demographic variables, such as age, income, and education, may offer practical guidance for policymakers and insurers aiming to enhance life insurance adoption.

Conflict of Interest

The authors declare no conflict of interest.

Funding

There was no external source of funding for the research.

Ethical Statement

This study did not require ethical approval as it involved no human or animal subjects; however, the authors affirm its originality and adherence to established research ethics and standards.

Authors' Contribution and ORCID

Bhim Kumar Thapa: Conceptualization, Methodology, Software, Data Analysis, Visualization, Validation, Resources, Review, and Editing.

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Ramesh Rasik Paudel: Investigation, Writing Draft, and Data Collection.

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Note: The authors acknowledge the use of AI-assisted tools (such as Quillbot and ChatGPT) strictly for editing language, improving readability, and grammar checking. No AI tools were used for data analysis, interpretation, or the creation of original scientific content. The authors take full responsibility for the accuracy and integrity of the manuscript.