

Exploring the barriers and perceptions behind Life Insurance avoidance in Nepal: A customer centric study

Ram Kumar Tiwari¹, Uday Kishor Tiwari², Binod Shah^{3*}, Shiva Poudyal⁴ and Md. Dildar Ansari⁵


1 Dong-Eui University, Busan, South Korea.

✉ sr.ramkumar.tiwari@gmail.com  orcid.org/0009-0002-4864-7498

2 Central Department of Management, Tribhuvan University, Nepal.

✉ udaykishortiwari11@gmail.com

3 Faculty of Management, Rajarshi Janak University, Janakpurdham, Nepal & Faculty of Management, Tribhuvan University, Nepal.

* Corresponding Author ✉ binod.sah@rrmc.tu.edu.np  orcid.org/0000-0001-8267-994X

4 Himalayan Life Insurance Limited, Nepal.

✉ shivapoudyal22@gmail.com

5 Nepal Insurance Authority, Nepal.

✉ dildarmohammad863@gmail.com

Abstract

Life insurance is an agreement where the insurer provides a lump-sum payment to beneficiaries in return for regular premiums. Its scope covers not only risk protection but also savings, investments, financial security, and tax benefits. The main objective of the study was to explore the barriers and perceptions behind life insurance avoidance in Nepal. This study focuses on exploring and analyzing the determinants influencing life insurance purchasing decisions in Nepal. It particularly examines customers' perceptions toward life insurance policies and identifies the major barriers that discourage individuals from purchasing such policies. A descriptive design is employed for this research, utilizing appropriate tables to analyze and present the data. The analysis focuses on current and prospective customers as a population. To achieve objectives of the study, only primary data were gathered using judgmental sampling, in which chosen respondents filled out questionnaires. The data analysis showed that most customers of life insurance companies in Nepal are dissatisfied with several factors including marketing strategies, policy, service, returns after maturity, and their overall trust in insurance. Many respondents (69.68 % policyholder) compared life insurance with cooperatives and finance companies, often viewing it as a fraudulent and few (28.36% having no insurance policies) responded as the benefits would only be paid after death. Additionally, the findings indicated that majority of customers bought life insurance policies not because they were personally interested, but mainly due to the constant pressure from agents and staff working in the sector. These findings suggest that lack of trust and awareness are the main barriers to adopting life insurance in Nepal, rather than financial status.

Keywords: Claim settlement, Customers' satisfaction, Life insurance, Selling strategies

1.0 Background of the study

Life insurance is an important part of investments and should be seen that way. Policyholders behave differently toward life insurance than they do regarding typical savings and protection. Today, people face risks everywhere and at any moment (Bista & Upadhyay, 2023). In this situation, insurance has become a crucial financial tool worldwide. It offers protection against uncertainties and supports economic growth. The insurance market includes various products, such as life, health, property, and casualty insurance, each showing different growth trends in different countries. These variations come from several economic, demographic, and social factors. These include income distribution, inflation rates, population size, public pension

systems, and the structure of insurance companies (Feyen et al., 2011). In Nepal, however, the life insurance sector is still quite underdeveloped, even as other economic areas make progress. This stagnation possibly results from low awareness, limited engagement from policyholders, and ineffective outreach strategies. These problems have held back the industry's ability to improve financial stability and social security.

Life insurance is often viewed as an optional expense rather than an essential form of protection among Nepalese consumers. Factors such as limited financial literacy, cultural hesitance towards insurance, and a lack of effective public educational programs contribute to this perception (Adhikari, 2020). Chun and Ming (2009) point out that insurance plays a dual role, it helps individuals prevent financial losses and serves as a tool for distributing risk throughout society. However, many consumers in Nepal do not fully understand these advantages, offering obstacle for enhancing insurance coverage rates. With increasing competition in the market, life insurers must provide innovative, need-based, and affordable options while also fostering trust and ensuring customers' satisfaction (Beckett et al., 2000).

1.1 Statement of the Problem

A study conducted in Germany (Hecht & Hanewald, 2011) has mentioned that there is significant role of tax incentive in purchasing life insurance policies. Given Nepal's relatively 39% of high-income tax rate, tax benefits are considered a determinative factor in buying decision of life insurance policy. Another research (Md et al., 2017) in Bangladesh shows that life insurance buying decisions are influenced by risks awareness, return on investment and tax benefits rather than premium amounts. Determinants like financial knowledge, taxation benefits, risk perception has positive relationship with life insurance purchasing decision (Keyal & Bhattacharya, 2023).

Currently, there are 14 life insurance companies in operation in Nepal, and their businesses are growing. However, research shows that many people buy life insurance policies mainly because agents persuade them or to help insurance staff reach their sales target, rather than from real understanding or personal planning.

According to the Nepal Insurance Authority (2025), the life insurance penetration rate in Nepal is 47.39% (till mid-May, 2025), indicating a substantial market opportunity. However, the industry continues to face challenges in reaching the remaining uninsured population. The central problem is a lack of in-depth, nuanced understanding of what truly motivates or deters the Nepalese population from purchasing and retaining life insurance policies. Without this critical insight, the insurance industry, its sales force, and the NIA cannot develop effective strategies to bridge the gap between market potential and actual penetration. This research seeks to bridge the gap between this market opportunity and industry struggle to capture the opportunity by exploring key questions about public awareness, trust in companies and their claim settlements, and the specific fears and barriers that deter potential customers. By analyzing consumer perceptions of sales strategies, service quality, and policy expectations, this study will transform NIA's quantitative statistics into actionable insights, providing a roadmap for the industry, stakeholders, and regulators to design more effective products, strategies, programs and build greater public trust. Therefore, the study aims to address the following research questions:

- i. What is the perception of Nepalese customers regarding life insurance policies?
- ii. What are the key barriers that discourage or prevent people in Nepal from purchasing life insurance?

1.2 Objectives of the Study

The overarching objective of this study is to explore and analyze the determinants of life insurance purchasing decisions in Nepal. Specifically, the study seeks :

- i. To assess customer perceptions of life insurance policies in Nepal.
- ii. To identify key barriers that discourage individuals from purchasing life insurance policies.

1.3 Significance of the Study

In Nepal, only a few studies have examined customer perceptions and the barriers to purchasing life insurance, particularly from the customer's perspective. This study seeks to bridge that gap by providing valuable insights for multiple stakeholders. For potential and existing customers, it helps clarify the prevailing attitudes and challenges associated with life insurance decisions. For life insurance companies, the findings highlight customer expectations and behavioral patterns, enabling them to design more customer-centric strategies and improve market penetration. Moreover, the study enriches academic discourse by serving as a foundation for future research on insurance behavior in Nepal. It encourages scholars to explore additional variables, utilize larger and more diverse samples, and extend the scope of inquiry to produce more comprehensive and representative findings.

2.0 Review of Literatures

Lawaju et al. (2024) investigated that policyholders perceive insurance policies as essential safeguards against financial risks after analyzing 403 responses of policy holders residing in Kathmandu Valley. However, several challenges, including policy misunderstanding, claim denials, and policy complexity, were identified. Through structural equation modeling, significant relationships between Customer Loyalty and Transparency with policyholders' perceptions was observed. Bista and Upadhyay (2023) analysed data from 150 policyholders and found that the factors influencing customer purchases of life insurance policies include education, economic status, medical emergencies, better returns, comparisons with other insurance companies, personal perceptions, available alternatives, and trust.

Goet (2022) revealed that, after analyzing 400 responses from policyholders, several factors influence customers' choice of insurance providers in Nepal. Services, proximity, technology, security, responsiveness, and brand image strongly shape decisions. In contrast, products and premiums have a weaker impact. Customers primarily value accessible information, expertise, and service quality when choosing a life insurance company.

Risal, Karki and Sharma (2022) concluded that Nepalese life insurance customers are generally satisfied. Prompt service has the biggest effect on their perception. Proficiency, reliability, and convenience also play a role in satisfaction after examining data from 350 life insurance policyholders in the Kathmandu valley. These findings offer useful insights for insurers, policymakers, and researchers to improve service quality, retain customers, and plan strategically in the insurance sector.

Adhikari (2020) reached into conclusion after analyzing responses of 400 respondents from Kathmandu and Parsa districts and found that company's image, loyalty, service quality, satisfaction, and simple procedures all positively influence how consumers perceive insurance in Nepal. Among these, company image, loyalty, and satisfaction are the strongest factors. To encourage better consumer response, it is important to improve service quality, simplify processes, and maintain positive staff behavior.

Islam and Mamun (2005) found that, after studying data from 300 people surveyed including insurance policyholders, officials, agents, and experts in Bangladesh, found that low income, limited purchasing power, and challenges in keeping up with premiums as the main reasons for people not interested in life insurance in Bangladesh. Other obstacles include poor service quality, complicated regulations, distrust in agents, weak claim settlement processes, and religious misunderstandings regarding insurance.

3.0 Research Methodology

This study used a descriptive, cross-sectional research design, and presented findings with frequency tables. The population consisted of current and potential life insurance customers in Nepal. To meet the research goals, only primary data were collected using a mixed-mode survey methodology, which involved distributing questionnaires through both digital and physical channels to ensure a broad and representative sample. Researchers gathered data through judgmental sampling, selecting 500 respondents to fill out questionnaires among which only 221 responses of policyholders were used for the major finding and remaining were used for general information. Majority of responses i.e., 334 were collected physically in various places including Bhatbhateni Super Market, Sales Berry, Big Mart, and branch offices of insurance companies in Kathmandu Valley, Butwal, Janakpurdham and Chandrauta. Rest of responses i.e., 166 were collected via a structured Google Form.

4.0 Results and Discussion

4.1 Ownership of Life Insurance Policies and Reasons for Decision

Table 1 presents the responses of 500 participants regarding whether they have ever held a life insurance policy. Out of the total respondents, 44.2% reported having a policy, 40.2% had never held one, and 15.6% remained neutral. Further breakdown highlights the underlying reasons: those with policies cited tax rebate, risk cover, or agent persuasion as major factors, while those without policies pointed to concerns such as fear of bankruptcy, return only after death, and better returns from banks and other financial institutions. These findings reveal both the motivators and deterrents shaping consumer decisions in the life insurance sector of Nepal.

Table 1 reflects the main reason among policyholders for purchasing insurance policy is the pressure from agents, accounting for 41.18%. This is followed by a combination of risk cover and tax rebate at 20.36%, tax rebate alone at 19.00%, and risk cover alone at 16.74%. Only 2.72% expressed neutrality. For those without a policy, the most common reason cited is the fear of bankruptcy, at 46.27%. Other reasons include the expected return after death at 28.36%, and comparison with FD of Bank and Other Financial Institutions at 23.88%. A small 1.49% remained neutral. These results suggest that perceived benefits and external influences play a significant role in whether people choose to adopt life insurance policies.

Table 1: Ownership of Life Insurance policies and reasons for decision

Have you ever held a life insurance policy?		
Responses	No. of Responses	Percentage
Yes	221	44.20
No	201	40.20
Neutral	78	15.60
Total	500	100

If 'Yes', what would be the reason behind it?		
Responses	No. of Responses	Percentage
Rebate of Tax	42	19.00
Risk Cover	37	16.74
Both I&II	45	20.36
Insistence of Agent	91	41.18
Neutral	6	2.72
Total	221	100
If 'Not', what would be the reason behind it?		
Responses	No. of Responses	Percentage
Fear of Bankruptcy	93	46.27
Return after Death	57	28.36
Comparison with FD of Bank and Other Financial Institutions	48	23.88
Neutral	3	1.49
Total	201	100

4.2 Perceptions of the Benefits of Purchasing Life Insurance

Table 2 presents respondents' views on whether they consider purchasing life insurance to be beneficial. Out of 221 participants, a majority (59.28%) expressed the belief that life insurance is not beneficial, while only 37.55% considered it advantageous and 3.17% remained neutral. This indicates a prevailing skepticism among the public, suggesting a need for stronger awareness campaigns and trust-building measures in the insurance sector.

Table 2: Perceptions of the benefits of purchasing Life Insurance

Do you believe that purchasing life insurance is beneficial?		
Response	No. of Participants	Percentage
Yes	83	37.55
Neutral	7	3.17
No	131	59.28
Total	221	100

4.3 Expectations of Policyholders Regarding Returns upon Maturity

Table 3 outlines respondents' expectations about the return on life insurance policies at maturity, irrespective of the policy tenure. Among the 221 policy holders, a majority (66.97%) expected to receive double of their investment, while 19.45% anticipated the sum assured with bonus, and only 4.98% were satisfied with just the sum assured. Additionally, 8.60 % of respondents remained neutral. These results reflect a tendency for high return expectations, which may influence both purchasing decisions and satisfaction with life insurance products.

Table 3: Expectations of policyholders regarding returns upon maturity

Response	No. of Participants	Percentage
Sum Assured	11	4.98
Sum Assured + Bonus	43	19.45
Double	148	66.97
Neutral	19	8.60
Total	221	100

4.4 Perceived Trust and Transparency in Nepalese Life Insurance Companies

Table 4: Trust and transparency in Nepalese Life Insurance companies

Response	No. of Participants	Percentage
Good	56	25.33
Average	17	7.70
Below Average	148	66.97
Total	221	100

Table 4 shows opinions of the policyholders on trust and transparency in Nepalese life insurance companies. Out of 221 insured persons, a majority (66.97%) rated the companies as below average, 25.33% considered them good, and only 7.70% perceived them as average. These findings highlight a significant trust deficit in the industry, indicating a need for improved transparency, communication, and customer-focused practices to enhance public confidence.

4.5 Perceived Status of Claim Settlement in Nepalese Life Insurance Companies

Table 5: Perceived status of claim settlement in Nepalese Life Insurance companies

Response	No. of Participants	Percentage
Good	43	19.46
Average	38	17.19
Below Average	140	63.35
Total	221	100

Table 5 shows the policyholders' opinion about claim settlement in Nepalese life insurance companies. Out of 221 insured persons, a significant majority (63.35%) rated the claim settlement process as below average, 19.46% considered it good, and only 17.19% perceived it as average. These results indicate serious concerns about the efficiency and reliability of claim settlements, highlighting the need for insurance companies to enhance their procedures and build greater customer trust.

4.6 Respondents' Satisfaction with Sales Strategies of Life Insurance Policies in Nepal

The effectiveness of sales strategies plays a crucial role in shaping customers' perception and trust in life insurance companies. Table 6 shows satisfactions of respondents with the sales strategies for life insurance policies. The data reveals that a majority of policyholders (52.94%) rated the sales strategies of life insurance companies as below average, while 33.03% perceived them as average. Only a small proportion, 14.03%, expressed satisfaction by rating them as good. This indicates that the existing sales approaches are largely ineffective in meeting

customer expectations and may lack transparency, customer orientation, or innovative marketing practices. As digital transformation has been deemed essential for growth in several sectors (Shah et al., 2025), there is need for adopting digital sales strategies. The findings highlight the need for Nepalese life insurance companies to revise their sales strategies, focusing more on customer trust, relationship-building, and ethical selling practices.

Table 6: Respondents' satisfaction with sales strategies of Life Insurance policies in Nepal

Response	No. of Participants	Percentage
Good	31	14.03
Average	73	33.03
Below Average	117	52.94
Total	221	100

4.7 Respondents' Concerns and Perceptions Regarding Life Insurance Policies in Nepal

Public perception toward life insurance policies is shaped not only by their potential benefits but also by doubts, fears, and skepticism. Table 7 shows the concerns or fears that respondents have about life insurance policies. Out of 221 insured persons, 56 (25.34%) thought life insurance helps minimize financial risk, while 8 (3.62%) viewed it as an act of fraud. A large group, 154 respondents (69.68%), worried that insurance companies could go bankrupt, similar to some cooperatives in Nepal. Meanwhile, 3 participants (1.36%) were neutral. These results show that while some respondents see the financial protection that life insurance provides, many others have negative views, especially regarding the reliability of life insurance companies.

Table 7: Respondents' concerns and perceptions regarding Life Insurance policies

Response	No. of Participants	Percentage
It helps to minimize financial risk.	56	25.34
It is an act of fraud.	8	3.62
It is likely to face bankruptcy, similar to some cooperatives in Nepal.	154	69.68
Neutral	3	1.36
Total	221	100

4.8 Primary Barriers to Purchasing Life Insurance Policies in Nepal

Table 8: Respondents' views on primary barriers to purchasing Life Insurance policies

Response	No. of Participants	Percentage
Financial problem	41	18.55
Low trust	162	73.31
Low urgency	5	2.26
Lack of awareness	10	4.52
Neutral	3	1.36
Total	221	100

The decision to purchase life insurance policies is often influenced by various financial, psychological, and informational factors. Table 8 shows the respondents' views on the main barriers to buying life insurance policies. Out of 221 policyholders, 41 (18.55%) stated financial issues were the top barrier. Meanwhile, 162 (73.31%) pointed to a low trust in insurance companies. Similarly, 5 respondents (2.26%) noted low urgency, and 10 (4.52%) mentioned a lack of awareness. Additionally, 3 participants (1.36%) stated neutral opinion. These results suggest that trust issues and financial limitations are the biggest challenges to broader adoption of life insurance policies.

4.9 Rating of Customer Service in Nepalese Life Insurance Companies

Customer service is a crucial determinant of trust, satisfaction, and long-term relationship between clients and insurance companies. Table 9 shows how respondents view the services offered by Nepalese life insurance companies. Out of 221 policyholders, 48 (21.72%) rated the services as good. In contrast, 98 (44.34%) thought they were average. Meanwhile, 75 respondents (33.94%) rated the services as below average. These results suggest that most respondents see the services as average. Fewer participants gave positive ratings, and a significant number expressed their dissatisfaction.

Table 9: Respondents' rating of customer Service in Nepalese Life Insurance companies

Response	No. of Participants	Percentage
Good	48	21.72
Average	98	44.34
Below Average	75	33.94
Total	221	100

5.0 Conclusion

The main objective of the study was to explore the barriers to purchasing life insurance policies among Nepalese customers and to understand their perceptions of such policies. The findings show that public perception of life insurance in Nepal is mixed. There is moderate awareness, but many people remain uninformed, which highlights the need for wider education. Policy ownership is relatively low, and many decisions to buy are influenced more by agent persuasion than by a solid understanding of benefits or risk coverage. While some respondents see the value of life insurance, a significant number are still skeptical. Many policyholders have high expectations for life insurance, especially regarding financial returns, indicating that potential monetary benefits are a key motivator along with risk protection.

Trust and transparency in insurance companies are viewed as weak. Many people express dissatisfaction with claim settlements and sales strategies. Concerns about financial stability and service quality are common, and only a small percentage of the eligible population has active policies. The main barriers to buying life insurance include low trust, financial difficulties, a perceived lack of urgency, and limited awareness, along with comparisons to other financial products and fears about company instability. These factors show that both financial and perceptual issues heavily influence consumer choices. Overall, despite recognizing some benefits, skepticism, doubts about reliability, and financial constraints continue to limit adoption. Strengthening credibility, improving communication, providing clear policy information, enhancing digital applications and running educational campaigns are essential to increase awareness, build trust, and boost customer satisfaction in Nepal's life insurance sector.

6.0 Recommendations

Based on these findings, the study recommends that life insurance companies and agents create and implement policies that meet the needs and expectations of current and prospective customers to improve business performance. It also highlights the need for more research to address new questions, increase the sample size, and include broader demographic groups to draw more complete conclusions on the topic. This approach could help raise awareness, trust, and adoption of life insurance policies in Nepal.

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