

Why Nepal needs a mandatory social insurance system

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Mandatory membership to social insurance ensures broad coverage of the whole population, fair treatment of insured persons and companies, and sustainable management of expenditure and costs.

No one is immune to crises. Let's take the case of Rajkumar and Shivani for instance. Rajkumar is a 32-year-old cook in a small hotel in Hemja, north of Pokhara, where he has been working for five years. His wife Shivani takes care of their small rice paddy and their three children, who are in primary school. Their combined salary covers food, bills, and children's education, with some left for investment. One rainy day, Rajkumar slips during work, breaks an arm and a leg and has to take some months off from work. Shivani is unable to take care of the fields to attend to her husband. The family is faced with the dilemma – how will they make ends meet?

Shall the family take their kids out of school to work in the fields or in some other type of job? Shall they sell their land, or other assets? Shall they spend the little savings they have or borrow money? If they borrow, will they have difficulties paying back? This story, though not real, reflects the life of many Nepalis; they are just one bad event away from facing terrible choices and risking all they have worked for.

If Rajkumar's employer had registered him to social insurance, all these questions would not be necessary. The family would receive the health and financial benefits to which he is entitled as a contributing member of the social security system. The recent discussions on the obligation to participate in social insurance, and its merits will decide the fate of many families like Rajkumar and Shivani's.

Social insurance in Nepal

Nepal has a long and successful history of provident funds that dates back to 1934 and programmes such as the Employees Provident Fund (EPF) have been in the collective memory of the citizens for a few decades. The introduction of mandatory social insurance through the Contribution-based Social Security Act (2017) and implemented by the Social Security Fund (SSF), is more recent. And, as anything new, there are concerns on how it impacts us.

Provident funds are based on the principle of individual accounts, which works as an automatic saving mechanism for when the worker retires or leaves employment. Social insurance system, on the other hand, is based on mutual aid that protects workers against situations where they lose, temporarily or permanently, their labour capacity, and provides income replacement for them and their families during the period the worker is unable to work. For social insurance to work, it requires participants to pay a premium to cover the costs of the schemes offered. Currently, participation in social security is mandatory to all formal private companies and workers.

For workers, social security has clear benefits – if they get sick, injured, disabled, old or have children, their income is secured. Among the benefits for employers, the costs that comes with workers' injuries, maternity leaves and gratuity are predictable and spread over time. Moreover, there is extensive evidence that workers covered by social insurance are more productive, take fewer sick days, and are generally more satisfied with their work – after all, knowing you are protected gives extra peace of mind and motivation to focus on work.

Mandatory vs. voluntary participation

The recent case filed by the Financial Institute Employees Union of Nepal (FIEUN) at Nepal's Supreme Court highlights the debate of choosing between compulsory or voluntary participation and its different implications. Based on global evidence, if contribution is made voluntary, coverage of social security will remain low. Even in Nepal, coverage of existing contribution-based social security programmes is less than 15 percent of all workers, and the covered are mainly civil servants. Ultimately, companies and individuals may feel their individual choice and independence has been strengthened due to voluntary participation, but once they find themselves in need, their choices will be limited to dilemmas similar to those at the start of this article. Moreover, to protect workers and their families without them participating in social insurance, the Government would need to further extend its already significant social assistance efforts, financed through general taxation.

Mandatory participation in social insurance will ensure broad or even universal coverage. The larger the number of people covered, the larger are the economic growth and stability benefits from social insurance – the same is true with labour productivity. With most companies participating, it also guarantees equal competition in the national market – labour costs are not affected by participation in social insurance, and good workers will avoid companies that do not offer protection. Given its nature, social insurance schemes work better with a large pool of participants as it makes risk management easier, more precise and cheaper. Moreover, compulsory participation reinforces the social contract for the collective responsibility over the wellbeing of labourers and their families and creates solidarity across workers.

Existing challenges and what lies ahead

The system implemented by the SSF has a long road ahead in terms of optimizing its operations, building trust with employers and workers, and building a culture of social insurance. Challenges on the issue of high contribution rate and similarity with existing system, such as the EPF and the Citizen Investment Trust, needs to be considered and studied, not only by the Government, but through dialogue with Trade Unions, Employers' Organizations, and the existing contribution-based and social insurance programmes. Overcoming these challenges will require effort and commitment, but the existing social insurance system has the potential of offering the benefits described above and more.

Based on the recent Nepal Labour Force Survey, approximately 8 million Nepalis are active in the labour market and many of them do not have social security. Soon a decision will be made on how social insurance will continue in Nepal. It will either choose to continue on the path focused in collective protection and inclusion, or it will choose a path where the individuals are left to deal with their risks on their own. If it is the latter, then many Nepali families will continue to face the similar dilemmas as that of Rajkumar and Shivani.