

SOLVENCY MARGIN DIRECTIVE, 2070 FOR LIFE INSURERS



Chabahil, Kathmandu

In exercise of the power conferred by sec 8 (Gha) of the Insurance Act, 1992, the insurance Board, hereby makes the following directives.

1. Short Title and Commencement

This Directive shall be called as the Beema Samiti **(Solvency Margin Directive, 2070 for life insurers)**. This directive shall commence from the date of its publication as set by the Beema Samiti

2. Definitions

All words and expressions used herein and not defined but defined in the Insurance Act 2049 (1992) or in the Insurance Regulations, 2049 (1993) or in any Rules or Regulations or Directives made there under, shall have the meanings respectively assigned to them in those Acts or Rules or Regulations or Directives.

3. Valuation of assets:

Every Life Insurers shall prepare a Statement of assets as mentioned in form DSM – Assets – A and Form DSM – Fixed Assets – AA in accordance with schedule 1.

Schedule 1 (Value of assets, except investments):

All assets in the audited balance sheet in accordance with the Beema Samiti directives (Preparation of Financial Statements and Auditors' report directive of Life Insurance Insurers') as the current reporting date would be considered at the book value, except the following assets, which are:

Given as zero value-

- o Sundry debts, to the extent they are not realizable;
- o Advances of an unrealizable character;
- o Furniture, fixtures, dead stock and stationery;
- o Deferred expenses;
- o Profit and loss appropriation account balance and any fictitious assets other than pre-paid expenses;
- o Reinsurer's balances outstanding for more than one year;
- o Preliminary expenses in the formation of the company;
- o Intangible assets, like goodwill, patents, trademarks, deferred tax and others;

Value of Assets Amount in "Form DSM – Assets -A "and "Form DSM – Fixed Assets –AA" Should be drawn from the guidance above for schedule 1.

4. Value of Investment Portfolio

- ☐ Every Life Insurers shall prepare a Statement of Investment Portfolio as mentioned in Form DSM – Investments – B and Form DSM – Investments in Equity– BB in accordance with schedule 2.

Schedule 2:

- ☐ Value of Investment Amount in Form DSM –Investments – B shall be the amount as mentioned in the current date audited Annual Financial Statements Report (mentioned in schedule 21 of Annual Financial Statements Report), prepared in accordance with the Beema Samiti directive (Preparation of Financial statements and auditors reports for Life Insurers’ directive);
- ☐ Value of Investments in equity in Form DSM – Investments in Equity – BB shall be accounted on fair value basis at market price as mentioned in the current date audited Annual Financial Statements Report (mentioned in schedule 21.1 of Annual Financial Statements Report), prepared in accordance with Beema Samiti directive (Preparation of Financial statements and auditors reports for Life Insurers’ directive);

5. Valuation of Policy Liabilities

- ☐ Every Life Insurers shall prepare a Statement of Liabilities as mentioned in Form DSM – Policy and other Liabilities – C, Form DSM – Summary of Life Valuation Report – CC and Form DSM – First Part of RSM calculation – CCC in accordance with schedule 3.

Schedule 3:

- ☐ The Actuary of an insurer should prepare the policy liability valuation report in accordance with Beema Samiti directive “The Actuarial Valuation directive”(Life Insurers’ Liability valuation directive);
- ☐ The Actuary should ensure that adequate systems of control are in place and fully documented to enable the appropriate valuation procedures to be correctly carried out and adequately recorded;
- ☐ At present, the statutory policy liability valuation is done tri annually by the Actuary. However, for this directive to take effective, such policy liability valuation should be done annually by the Actuary to determine solvency and financial condition of the business, and a copy of the such annual valuation report should be submitted to Beema Samiti;
- ☐ All the amounts and figures respectively mentioned in the current date policy liability valuation report prepared by the Actuary annually should be incorporated in the current audited Financial Statements Report, prepared in accordance with the Beema Samiti directives;
- ☐ Value of Policy Liabilities Amount in Form DSM – Policy and other Liabilities – C shall be the amount as mentioned in the current date Policy Liability valuation Report prepared by the Actuary annually and incorporated in the audited Financial Statements, prepared in accordance with the Beema Samiti directives (Life Insurers’ Liability valuation directive and Preparation of Financial Statements and Auditor’s Report directive of Life Insurers’)
- ☐ Form DSM – Summary of Life Valuation Report – CC, value in this form shall be the Policy liabilities amount for each life product as mentioned in the current date Policy Liability valuation

Report prepared by the Actuary annually and incorporated in the audited Financial Statements, prepared in accordance with the Beema Samiti directives (Life Insurers' Liability valuation directive and Preparation of Financial Statements and Auditor's Report directive of Life Insurers')

- ☐ Form DSM – First Part of RSM calculation – CCC, value in this form shall be total Policy liabilities amount for each life product as mentioned in the “Form DSM – Summary of Life Valuation Report – CC”. Total Policy Liabilities for each life product in this form shall be multiplied by the First factor (see direction 7) in working out the Required Solvency Margin's calculation in the first part;

6. Sum At Risk of all Life insurance products

- ☐ Every Life Insurers shall prepare a statement of Sum At Risk of all life insurance products offered by the insurers as mentioned in Form DSM – Second Part of RSM calculation – D in accordance with schedule 4.

Schedule 4:

- ☐ Form DSM – Second Part of RSM calculation - D, value in this form shall be Sum At Risk for each life product as mentioned in the current date Policy Liability valuation Report prepared by the Actuary annually and incorporated in the audited Annual Financial Statements Report (mentioned in schedule 31 of audited Annual Financial Statements Report), prepared in accordance with the Beema Samiti directives (Life Insurers' Liability valuation directive and Preparation of Financial Statements and Auditor's Report directive of Life Insurers');
- ☐ Sum At Risk (after Reinsurance acceptances) i.e. Sum At Risk assumed by Insurer in this Form DSM – D for each life product shall be multiplied by the second factor (see direction 7) in working out the Required Solvency Margin's calculation in the second part;

7. Determination of Solvency Margins – Life Insurers

- ☐ Every Life Insurers shall prepare a Statement of Required Solvency Margin, Statement of Available Solvency Margin and Solvency Ratio as mentioned in Form DSM –Required Solvency Margin– E and Form DSM – Solvency Ratio – F in accordance with schedule 5.

Schedule 5:

- ☐ **“Available Solvency Margin”** means the excess of the total adjusted assets (furnished in Form DSM – Assets – A) over the total adjusted life insurance liabilities 2 (TL2) (furnished in Form DSM- Liabilities –C);
- ☐ **“Required Solvency Margin”** is calculated as the

First Factor X Total adjusted Policy liabilities 1(TL1)(furnished in Form-C) + Second Factor X Sum At Risk After Reinsurance acceptances i.e. Sum At Risk assumed by Insurer (furnished in Form – D) of

the current date Policy Liability valuation Report prepared by the Actuary and incorporated in the audited Annual Financial Statements Report

Or, Minimum Licensing Capital NPR 250 million, whichever is higher

Below are the first and second factors with respect to the insurance product in working out the required solvency margin. However, these factors could be change if necessary from Beema Samiti.

Category of Business	First Factor	Second Factor
Participated and Non-Participated business		
Individual Business	4%	0.3%
Group Business	4%	0.3%
General Annuity and pension	4%	0%
Unit linked		
Individual Business	2%	0.3%
Group Business	2%	0.3%
General Annuity and Pension	2%	0%

☐ **“Solvency ratio”** means the ratio of the Available Solvency Margin to the amount of Required Solvency Margin

8. Forms

☐ All life insurers should furnish the forms listed below as mentioned in this directive. All figures mentioned in the forms should be in thousands and all amounts should be in Nepali Rupees (NPR). (DSM: Determination of Solvency Margin)

1. Form DSM – Assets – A
2. Form DSM – Fixed Assets – AA
3. Form DSM – Investments – B
4. Form DSM – Investments in Equity – BB
5. Form DSM – Policy and other Liabilities – C
6. Form DSM – Summary of Life Valuation report – CC
7. Form DSM – First Part of RSM Calculation - CCC
8. Form DSM – Second Part of RSM Calculation– D
9. Form DSM – Required Solvency Margin– E
10. Form DSM – Solvency Ratio – F

9. Solvency Control Levels

The following control levels have been put in place to enable the Beema Samiti (Insurance Board) take a proactive approach of dealing with emerging insolvencies at the initial stages before they degenerate into crises. The solvency control levels and their consequent corrective actions are as follows:

☐ **For “Solvency Ratio (ASM/RSM)”**

Level	Margin	Corrective Action
Green	Greater than 1.5	Routine Action
Yellow	Greater than 1 but less than 1.5	Greater supervision with on-site intervention
Red	Less than 1	Enforcement Action/ Capital Injection

Form DSM – Assets – A (see Direction 3)

Statement of Assets 1 as on current Life insurers’ liability valuation/Balance Sheet date:

Items No:	Category of Asset (1)	Assets Amount in “000” (2)	Percentage of Assets Amount (3)	Factor Percentage (4)	Adjusted Assets Amount “000” (5)
1	Fixed Assets				
2	Approved Total Mandated Investment (TMI)				
3	Approved Total Non – Mandated Investment (TNMI)				
4	Cash and Bank Balances				
5	Loan Against Policies				
6	Long Term Loan				
7	Short Term Loan				
8	Other Assets (Specify)				
Total					

Note:

- i. The table should show the assets amount as mentioned in the current audited balance sheet date, prepared in accordance with the Beema Samiti directive (Preparation of financial statements and auditors reports for life insurers’ directive);
- ii. Items No 1 shall be amount of the total Fixed assets Net cost amount as mentioned in Form DSM – Fixed Assets – AA;
- iii. Items No 2 and 3 shall be the amount of the total Adjusted investment amount for mandated and non-mandated amount respectively as mentioned in Form DSM – Investment – B;
- iv. Column (5)= Column (2) X Column (4);
- v. Column (4)= The value should be 1 until further intimation from the Beema Samiti;

Form DSM -Fixed Assets – AA (see Direction 3)

Statement of Assets 2 as on current Life insurers' liability valuation/Balance Sheet date:

Items No	Particulars	Total Cost Price "000" (1)	Deprecation "000" (2)	Total Net Cost "000" (3)
1	Freehold Land			
2	Building			
3	Furniture and Fixture			
4	Office Equipment			
5	Computer and Accessories			
6	Software			
7	Vehicle			
8	Lease Hold Premises			
9	Other Assets (Specify)			
Total				

Note:

- i. Fixed assets are accounted in accordance with historical cost concept after deduction of depreciation on cost price;
- ii. The amount should be matched with current date audited Annual Financial Statements Report (mentioned in schedule 20 of Annual Financial Statements Report) as prepared in accordance with Beema Samiti Directive (Preparation of Financial statements and auditors reports for Life Insurers' Directive);
- iii. The depreciation policy and rate of depreciation is in accordance with the Beema Samiti Rules and Regulation;
- iv. Items No 3 and 6 shall be given zero value (see direction 3);
- v. Items No 8, for lease hold premises only building and land would be considered other particular will be given zero value;
- vi. Revaluation, if any, of fixed assets shall be ignored;

Form DSM – Investments – B (see Direction 4)

Statement of Investment Portfolio 1 as on current Life insurers' liability valuation/Balance Sheet date:

Items No.	Category of Investment (1)	Investment Amount in "000" (2)	Percentage of Investment Amount (3)	Factor Percentage (4)	Adjusted Investment Amount in"000" (5)
Mandated Investment					
a.	Debentures of Govt. and Central Bank or Debenture/Saving certificates Guaranteed by Government				
b.	Fixed Deposit of Commercial Bank				
c.	Fixed Deposit of Development Bank				
d.	Investment in Citizen Investment Trust (In Ekanki Nagarik Lagani Plan)				
Total Mandatory Investment (TMI)					
Non-Mandated Investment					
e.	Preference Shares (not transferable to ordinary shares), Secured Debentures and other Debentures of Commercial banks, development banks and finance companies				
f.	Fixed deposit of Finance Company				
g.	Ordinary shares of Public Limited Company				
h.	Other Non- Mandated Investment				
Total Non-Mandated Investment (TNMI)					
Total Investment ((TI)=(TMI + TNMI))					

Note:

For Form DSM – Investments – B

- i. The table should show the investment amount as mentioned in the current date audited Annual Financial Statements Report (mentioned in schedule 21 of Annual Financial Statements Report) as prepared in accordance with the Beema Samiti directive (Preparation of Financial statements and auditors reports for Life Insurers’ directive);
- ii. Items No. shall be the amount of total investment in Equity at Market Price as mentioned in the Form DSM – Investment in Equity –BB;
- iii. Column (4) = The value should be 1 until further intimation from the Beema Samiti ;
- iv. Column (5) = Column (2) X Column (4);

Form DSM - Investments in Equity – BB (see Direction 4)

Statement of Investment in Equity 2 as on current Life insurers’ liability valuation/Balance Sheet date:

Items No.	Companies (1)	No of Shares (2)	Face value per Share (3)	Cost Price (CP) (4)	Market Price (MP) (5)	Market Price (MP) “000” (6)
Total						

Note:

For Form DSM – Investments in Equity –BB

- i. The table should show the investments in equity amount as mentioned in the current date audited Annual Financial Statements Report (mentioned in schedule 21.1 of Annual Financial Statements Report) as prepared in accordance with Beema Samiti directive (Preparation of Financial statements and auditors reports for Life Insurers’ directive);
- ii. All figures in column 6 shall be in NPR “000” however in column no: 2,3,4 and 5 shall be in full figures;
- iii. Investment in Equity shall be accounted on fair value basis at market price as mentioned in the current date audited Annual Financial Statements Report (mentioned in schedule 21.1 of Annual Financial Statements Report), prepared in accordance with Beema Samiti directive (Preparation of Financial statements and auditors reports for Life Insurers’ directive);

Form DSM –Policy and other Liabilities – C (see direction 5)

Statement of Liabilities 1 as on current Life insurers' liability valuation/Balance Sheet date:

Items No	Category of Liabilities (1)	Liabilities Amount in "000" (2)	Percentage of Liabilities Amount (3)	Factor Percentage (4)	Adjusted Liabilities Amount in "000" (5)
1	Mathematical Reserves				
2	Cost of Bonus				
3	Provision for Immediate claim Payment				
4	Provision for Contingency				
5	Other Policy related liabilities and Provision				
6	Provision for Unexpired Risk (Foreign employment Term Assurance Plan)				
7	Provision for Claims				
Total Policy Liabilities 1 (TL1)					
8	Other Liabilities and Provision as in current Balance Sheet Date				
Total Liabilities 2 (TL2)					

Note:

For Form DSM – Policy and other Liabilities - C

- i. Items No: 1,2,3,4,5,6 and 7 shall be the total liabilities amount respectively arise from life insurance businesses as mentioned in the From DSM – Summary of Life Valuation Report – CC;
- ii. Items No. 8 shall be the total liabilities and other provision amount as mentioned in current date audited Annual Financial Statement Report (mentioned in schedule 25 and schedule 26 A of Audited Annual Report), prepared in accordance with Beema Samiti Directive (Preparation of Financial statements and Auditor's for Life insurers' directive);
- iii. Total adjusted Policy Liabilities 1 (TL1) shall be used for working out for the Required Solvency Margin and Total adjusted Liabilities 2 (TL2) shall be used for working out for the Available Solvency Margin;**
- iv. Total adjusted Liabilities 2 (TL2) is the sum of items no. 8 and Total adjusted Policy Liabilities 1 (TL1);
- v. Column (5) = Column (2) X Column (4);
- vi. Column (4)=The value should be 1 until further intimation from the Beema Samiti;
- vii. All figures in Columns (2) and (5) should be in NPR "000";

Form DSM – Summary of Life Valuation Report – CC (see Direction 5)

Statement of Liabilities 2 as on current Life insurers' liability valuation/Balance Sheet date:

Items No:	Category of Business (1)	Mathematical Reserves "000" (2)	Cost of Bonus for Policyholder "000" (3)	Provision for Immediate Claim payment "000" (4)	Provision for Contingencies "000" (5)	Other Policy related Liabilities and Provision "000" (6)	Provision for unexpired Risk (Foreign Employment Term Assurance Plan) "000" (7)	Provision for claims "000" (8)	Total adjusted Policy Liabilities 1 (TL1) "000" (9)
Total									

Note:

For From DSM – Summary of Life Valuation Report – CC

- i. Columns no: 2,3,4,5 and 6 shall be the liabilities amount for each category of business prepared by the Actuary annually as mentioned in current date Policy liability valuation report, prepared in accordance with Beema Samiti directive (Life Insurers' Liability Valuation Directive);
- ii. Columns no: 7 and 8 shall be the total liabilities amount for each category of business where appropriate as mentioned in current date audited Annual Financial Statement Report (mentioned in schedule 26 and schedule 9 of Audited Annual Financial Statements Report), prepared in accordance with Beema Samiti directive(Preparation of Financial statements and Auditor's for Life insurers' directive);
- iii. Columns no: 9 shall be the total Policy Liabilities amount for each category of business;
- iv. Category of business includes a) Traditional – Participating, b) Traditional – Non – Participating, c) Traditional – General Annuity and Pensions, and d) Unit – linked;

Form DSM – First part of RSM calculation – CCC (see Direction 5)

Statement of Liabilities 3 as on current Life insurers' liability valuation/Balance Sheet date:

Items No:	Category of Business (1)	Total adjusted Policy Liabilities 1 (TL1) "000" (2)	First Factor (3)	First part of RSM Calculation "000" (4)
Total				

Note:

For Form DSM – First part of RSM calculation – CCC

- i. Column No: 2 shall be the total adjusted Policy Liabilities amount for each life product where appropriate as mention in the "Form DSM – Summary of Life Valuation Report – CC ";
- ii. Column No: 3 = 4% or 2% as appropriate, mentioned in Regulation 7;
- iii. Column No 4= Column No 2X Column No 3, Column No 4 shall be First part of Required Solvency Margin Calculation used in working out for Required Solvency Margin;
- iv. RSM= Required Solvency Margin;

Form DSM – Second Part of RSM Calculation – D (see Direction 6)

Statement of sum assured of all life insurance products as on current Life insurers' liability valuation/Balance Sheet date:

Items No:	Category of Business (1)	In forced Policies (2)	Sum Assured of In forced Policies "000" (3)	Sum At Risk "000" (4)	Sum At Risk Transferred to Reinsurance (SAARA) "000" (5)	Sum At Risk Assumed by Insurer (6)	Second Factor (7)	Second Part of RSM Calculation "000" (8)
Total								

Note:

- i. The table shall show the amount as mentioned in current date Policy Liability valuation Report prepared by the Actuary and incorporated in the audited Annual Financial Statements Report (mentioned in schedule 31 of audited Annual Financial Statements Report), prepared in accordance with Beema Samiti Directive;
- ii. Column No 7= 0.3% or 0% as appropriate, mentioned in Direction 7;
- iii. Column No 8= Column No 6 X Column No 7. Column No 8 shall be Second part of Required Solvency Margin Calculation used in working out for Required Solvency Margin;
- iv. RSM= Required Solvency Margin;

Form DSM – Required Solvency Margin – E (see Direction 7)

Statement of Required Solvency Margin as on current Life insurers' liability valuation/Balance

Sheet date

Items No.	Particulars (1)	Form (2)	Amount in "000" (3)
1	Minimum Licensing Capital		
2	First Part of RSM calculation	CCC	
3	Second Part of RSM calculation	D	
4	Total (Row 2 + Row 3)		
5	Required Solvency Margin (RSM) (Greater of Row 1 and Row 4)		

Note:

- i. Item No: 1 shall be the Minimum Licensing Capital (NPR 250 Million) to operate Life Insurance Company as prescribed by the Beema Samiti Rules and Regulations;
- ii. Item No: 2 shall be the total First Part of RSM calculation amount as mentioned in the Form DSM – First part of RSM calculation – CCC of this directive;
- iii. Item No: 3 shall be the total Second Part of RSM calculation amount as mentioned in the Form DSM – Second Part of RSM calculation – D of this directive;
- iv. Item No: 5 shall be the Required Solvency Margin (RSM) amount either Items No: 1 or Item No: 4, whichever is higher

Form DSM – Solvency Ratio –F (see Direction 7)

Statement of Solvency Margin and Solvency Ratio as on current Life insurers' liability valuation/Balance Sheet date:

Items No.	Particulars (1)	Form (2)	Amount in "000" (3)
1	Total Assets (TA)	A	
2	Total Liabilities 2 (TL2)	C	
3	Required Solvency Margin (RSM)	E	
4	Available Solvency Margin (ASM) (TA-TL2)		
5	Solvency Ratio (ASM/RSM)		

Note:

- i. Item No: 1 shall be the total adjusted assets amount as mentioned in the Form DSM – Assets – A of this directive;
- ii. Item No: 2 shall be the total adjusted liabilities 2 (TL2) amount as mentioned in the Form DSM – Liabilities – C of this directive;
- iii. Item No: 3 shall be the Required Solvency Margin as mentioned in the Form DSM – Required Solvency Margin– E of this directive;
- iv. Item No: 4 shall be the difference between item No: 1 and Item No: 2;