

SOLVENCY MARGIN DIRECTIVE, 2071 FOR GENERAL INSURERS



**Ashadh, 2071
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.

The purpose of the directive is:

- To evaluate the financial strength of the company
- To protect the interest of stakeholders
- To timely intervene by the Regulator

1. Short Title and Commencement

This Directive shall be called as the Beema Samiti (**Solvency Margin Directive, 2071 for General 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 General 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**.

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 General 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**.

5. Valuation of Liabilities

- The valuation of liabilities of insurer for the purpose of determination of solvency margin shall be done annually.
- The value of liabilities of the insurer for the purpose of determining solvency margin shall be:
 - (a) The technical reserves which includes:
 - i Unexpired risk reserves as prescribed by Beema samiti.*
 - ii Reserves for net outstanding claim.
 - iii Catastrophe reserve.
 - iv Any other contingencies reserves.
 - (b) Liabilities as shown in the balance sheet.

**Unexpired risk reserve shall be as per Beema samiti Financial Statement directive or as per proportionate basis (ie.1/365model) whichever is higher.*

6. Determination of Solvency Margins – General Insurers

- “**Available Solvency Margin**” means the excess of the total adjusted assets (furnished in Form DSM – Assets – A) over the total Adjusted liabilities (TL) (furnished in Form DSM- Liabilities – C);
- “**Required Solvency Margin**” shall be not less than the highest of the following.
 - (a) Rs 250; million
 - (b) A sum equivalent to 20% of net premium; or
 - (c) A sum equivalent to 40% of the average net outstanding claim for the three years immediately preceding the current year.
- “**Solvency ratio**” means the ratio of the Available Solvency Margin to the amount of Required Solvency Margin.

7. Forms

- All General 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 – Liabilities' – C
 - 6. Form DSM – Required Solvency Margin– D
 - 7. Form DSM – Solvency Ratio – E

8. 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	Long Term Loan				
6	Short Term Loan				
7	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 General 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 general 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 17 of Annual Financial Statements Report) as prepared in accordance with Beema Samiti Directive (Preparation of Financial statements and auditors reports for General 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 18 of Annual Financial Statements Report) as prepared in accordance with the Beema Samiti directive (Preparation of Financial statements and auditors reports for General 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 18.1 of Annual Financial Statements Report) as prepared in accordance with Beema Samiti directive (Preparation of Financial statements and auditors reports for General 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 18.1 of Annual Financial Statements Report), prepared in accordance with Beema Samiti directive (Preparation of Financial statements and auditors reports for General Insurers’ directive);

Form DSM – Technical reserves & Other Liabilities – C

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

Items No	Category of Liabilities (1)	Amount in “000” (2)	Reference table
1	Unexpired Risk reserve(Net)		
2	Outstanding claim reserve(Net)		
3	Catastrophe Reserve		
4	Contingency Reserve		
5	Other liabilities as shown in the balance sheet		
6	Total liabilities		

Note:-

For Form DSM – technical reserves & other Liabilities - C

- i. Item no 1 shall be as per schedule 23 of the financial statement schedule as prescribed by Beema Samiti.
- ii. Item no 2 shall be as per schedule 6 of the financial statement schedule as prescribed by Beema Samiti.
- iii. Item no 3&4 shall be as per schedule 14 of the financial statement schedule as prescribed by Beema samiti.
- iv. Item no5 shall be as per schedule 22 of the financial statement schedule as prescribed by Beema samiti.

Form DSM – Required Solvency Margin – D (see Direction 6)

Determination of Required Solvency Margin for the year ended:

Item No.	Particulars	Amount(Rs)	Reference table
1	Minimum Paid up capital		Direction 6
2	Net premium		
3	20% of Net premium		Direction 6
4	Net outstanding claim year3		
5	Net outstanding claim year2		
6	Net outstanding claim year1		
7	Average Net outstanding claim		
8	40% of net outstanding claim		Direction 6
9	Required solvency Margin(higher of item1,3 & 8)		

Note:-

For formDSM-Required Solvency Margin-D

- i. Item no 1 shall be minimum paid up capital as prescribed by Beema Samiti.
- ii. Item no 6 shall be the Net outstanding claim for the current year.
- iii. Item no 5 shall be the net outstanding claim for the year immediately preceding the current year.
- iv. Item no 4 shall be the net outstanding claim for the 2 years before the current year.
- v. item no 7 shall be the average of item no 4,5 & 6.

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

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

Item No.	Particulars	Form no	Amount
1	Value of Admissible Assets	As per form DSM-Assets-A	
2	Amount of technical liabilities	As per form DSM-Liabilities-C	
3	Available solvency margin(Item.no1 minus item.no2)		
4	Required solvency margin	As per form DSM-D	
5	Solvency ratio=(Item.no3 divided by item. no. 4)		

Note:-

- Item no 1 shall be the value of Admissible Assets as per form DSM-Assets-A
Item no 2 shall be the amount of technical liabilities as per form DSM-Liabilities-C
Item no 3 shall be available solvency margin (item no 1-item no 2)
Item no 5 shall be Item no 3 divided by item no 4.

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 General Insurance Insurers') as the current reporting date would be considered at the book value, except the following assets, which are:

Givens zero value-

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

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 18 of Annual Financial Statements Report), prepared in accordance with the Beema Samiti directive (Preparation of Financial statements and auditors reports for General 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 18.1 of Annual Financial Statements Report), prepared in accordance with Beema Samiti directive (Preparation of Financial statements and auditors reports for General Insurers' directive);