

TRU Flash Alert

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Investment Directives for Insurer, 2075

Background

Beema Samiti has issued the directives on investment on 2075.11.2. The revised directive is more elaborate than the previous directive issued in 2071 and has opened other investment avenues for insurance companies in real estate sector. Insurance companies can now investment up to 5% of **Technical Reserve** in real estate. Earlier the limit for investment on various areas were fixed at certain percentage of total investment against the revised directive where the base has been changed to Technical Reserve.

What it means for Life Insurers and policy holders?

The changes in directive is definitely going to help insurance companies in creating additional opportunities to invest in sectors with higher returns which shall correspond to higher profits which shall be passed through to the investors and policy holders.

Applicability

The directive shall have immediate effect and repeals policy on investment issued in 2071.

What is Technical Reserve?

Technical reserve is the liability booked by the insurance companies against the insurance policies. The components of technical reserve are generally provided by the actuary in its actuarial valuation report. For the purpose of determining limit on investment, technical reserve based on previous year's approved financial statement by Beema Samiti should be considered.

Life Insurers	Mathematical Reserve	XXX
	Provision for bonus	XXX
	Provision for contingency	XXX
	Provision for immediate payment of claims	XXX
	Provision for IBNR (Incurred but not reported)	XXX
	Other such reserves	XXX
	Provision for unexpired risk reserve (Term Policy)	XXX
	Technical Reserve	XXX
Except for Provision for URR, other reserves are created for Participating contracts such as Endowment, Endowment & whole life and Money Back policy.		
General Insurers	Unexpired Risk Reserve (Higher of amount prescribed by Beema Samiti or calculated on pro rata basis)	XXX
	Provision for outstanding claims	XXX
	Catastrophe reserve	XXX
	Provision for contingency	XXX
	Technical reserve	XXX
	<i>*Unexpired risk reserve shall be the higher of amount as per Beema samiti or as calculation on proportionate basis (taking no. of days as basis).</i>	
Re insurers	Liability as determined by actuary	XXX
	Provision for outstanding claims	XXX
	Provision for unexpired risk reserve	XXX
	Technical reserve	XXX

Location of investment

All the investment should be made in Nepal however, it shall not be applicable for reinsurance receivable.

Determination of Solvency Margin

The directive has stated that following assets are considered for the purpose of calculating solvency margin as per Solvency Margin Directive, 2071

- Cash
- Debentures of Govt. and Central Bank or Debenture/Saving certificates Guaranteed by Government
- Amount deposited in current account, call deposit and fixed deposit of commercial banks or fixed deposit in Nepal Infrastructure Development Bank

Apart from this investment such as real estate, listed ordinary shares, debentures and preference shares issued by licensed "A", "B" and "C" class financial institution etc. shall be considered for the purpose of calculation of solvency to the extent of permissible limit prescribed in Annexure 2 of this directive.

Minimum and Maximum Investment

Minimum Investment	The insurer should investment at least the following areas with limits as prescribed in Annexure 1 of the directive <ul style="list-style-type: none"> - Debentures of Govt. and Central Bank or Debenture/Saving certificates Guaranteed by Government - Amount deposited in current account, call deposit and fixed deposit of commercial banks or fixed deposit in Nepal Infrastructure Development Bank <p>Also, solvency margin should be maintained at least 1.5:1.</p>
Maximum limit on investment	As prescribed in the directive. Also, the same has been given in following section.
If investment breaches minimum or maximum	If the investment is below minimum prescribed limit or it crosses maximum prescribed limit, the insurer shall bring those investments to limit within 30 Days. An insurer is required to value investments other than investment in real estate on a daily basis. Investment in real estate shall be valued at every 3 years.

Where can Insurer make investments?

Investment Sector	Investment Limit	Criteria	Remarks
Minimum limit for investment			
Debentures of Govt. and Central Bank or Debenture/Saving certificates Guaranteed by Government	5% of Total Technical Reserve		If not in invested in the given head, investment should be made in Fixed deposit of Commercial Bank and Infrastructure Development Bank Ltd and such information be furnished to the Board.
Fixed deposit of Commercial Bank and Infrastructure Development Bank Ltd	40% of Total Technical Reserve	Maximum 15% of the technical reserve can be invested in fixed deposit of the bank which has been in operation for at least 5 years and has been profitable for at least 3 years based on audited financials. But maximum of 5% of technical reserve can be invested in a bank which is in operation for less than 5 years.	
Maximum limit of Asset for the purpose of Technical Reserve			
Real Estate Business	5% of Total Technical Reserve	Investment shall not be more than 5% of total technical reserve of Real Estate with close Proximity	

Ordinary Shares of Listed Public Limited Company	10% of Total Technical Reserve	Share investment shall not be more than 5% of paid-up capital of the invested company	
Non-convertible Preference Shares and debentures of licensed "A", "B" and "C" class financial institutions	20% of Total Technical Reserve	Not more than 10% of paid-up capital of the invested company	
Secured Debenture of Listed Public Company	20% of Total Technical Reserve	Not more than 10% of the debenture issued in a company	Investment beyond the limit need Board's approval
Investment in equity or loans and advances in agriculture, tourism and hydro	20% of Total Technical Reserve	Not more than 10% of the issued amount in a project. Also, the investee should be a public company.	Board's approval is need for the investment beyond the limit
Investment in Citizen Investment Trust and Mutual Fund Schemes	5% of Total Technical Reserve	Not more than 5% investment in a scheme of mutual fund or CIT.	
Fixed Deposit in licensed "B" class financial institutions	20% of Total Technical Reserve	Maximum 5% of the technical reserve can be invested in fixed deposit of "B" class licensed financial institution which has been in operation for at least 5 years and has been profitable for at least 3 years based on audited financials. But maximum of 2% of technical reserve can be invested in a bank which is in operation for less than 5 years.	
Fixed deposit in licensed "C" class financial institution	10% of Total Technical Reserve	Maximum 3% of the technical reserve can be invested in fixed deposit of "C" class licensed financial institution which has been in operation for at least 5 years and has been profitable for at least 3 years based on audited financials. But maximum of 1% of technical reserve can be invested in a bank which is in operation for less than 5 years.	

[Please click here for directive issued by Beema Samiti](#)

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