

**BEEMA SAMITI  
(INSURANCE BOARD)**



**REINSURANCE DIRECTIVE FOR LIFE  
INSURANCE - 2065**

**(UNOFFICIAL TRANSLATION)**

**Date of first implementation: 2065/04/01 (July 16, 2008)**

Insurance Board has issued the following **Reinsurance Directive for Life Insurance - 2065** for the purpose of Sub Rule (2) of Rule 6 of Insurance Regulation, 1993 by making reinsurance policy and provision pursuant to the authority given by section 28 of Insurance Act, 1992 to manage provision of reinsurance of all Insurers.

### **1. Brief Name and Commencement**

- (1) The name of this directive shall be **Reinsurance Directive for Life Insurance - 2065**.
- (2) This directive shall commence from the date set by the Board.

### **2. Reinsurance Provision**

- (1) Insurer has to make appropriate reinsurance policy according to its underwriting policy, net worth and its risk.
- (2) Under the reinsurance policy made per Sub-directive (1), following points have to be included.
  - (a) Type of reinsurance,
  - (b) Basis of selection of reinsurer (including leader) ,
  - (c) Basis of selection of reinsurance broker,
  - (d) Internal control system to monitor the reinsurance arrangements,
  - (e) Insurer's retention limit under each reinsurance,
  - (f) Maximum reinsurance limit under each reinsurance, and
  - (g) Other necessary information.
- (3) (a) Insurer's Board of Directors or the official authorized by Board of Directors has to prepare reinsurance policy as per Sub-directive (2) for each fiscal year and submit to the Insurance Board at least thirty (30) days before the end of each fiscal year.
  - (b) The Insurance Board should be notified about any reinsurance arrangement that took place separately during the mid of the period.

In case of the insurer not having its head office in Nepal, the office in Nepal will have to prepare its reinsurance policy and submit to the Board as per this directive.
- (4) Insurer has to submit to the Insurance Board the attested copy of Signed Slip/Cover Note of Reinsurance Treaty done for each fiscal year within forty-five (45) days after treaty becomes effective. However, this provision will not be applicable for facultative reinsurance.

- (5) Irrespective of anything written anywhere in this directive, the Insurer has to amend its reinsurance provisions as necessary upon immediate review of the same in case of amendment in underwriting policy, the financial condition of the Insurer getting worse/adverse, the rating of the Reinsurer going down or other necessary condition.
- (6) The Insurance Board can give necessary instruction on the reinsurance policy submitted as per Sub-directive (3) and reinsurance treaty submitted as per Sub-directive (4).
- (7) Reinsurance policy or treaty has to be amended per instruction of the Insurance Board as per Sub-directive (6).

### **3. Risk retention by the insurer**

Insurer cannot reinsure 100% of risk without retaining some portion of risk covered by each policy of the insurer.

### **4. Need for reinsurance**

- (1) Insurer has to reinsure the remaining portion of risk after retaining risk of its own.
- (2) Policy cannot be issued without adequate reinsurance arrangements of the portion, which cannot be retained as per Sub-directive (1).
- (3) Necessary process for renewal of reinsurance treaty has to be started thirty (30) days prior to the expiry of reinsurance arrangement under Treaty done as per Sub-directive (1).
- (4) While reinsuring as per Sub-directive (1), reinsurance arrangement should be made in a manner that any risk covered by the policy of the insurer is not skipped.
- (5) While reinsuring as per Sub-directive (1), reinsurance has to be done with local insurer registered with the Board, Reinsurance Company registered in Nepal or Reinsurance Company registered overseas.
- (6) While doing reinsurance with reinsurance company registered overseas as per Sub-directive (5), Reinsurer should be selected considering the Reinsurer's capital, goodwill, capacity and experience as well.

But, reinsurance for leader cannot be done with reinsurance company having credit rating less than BBB under the rating of Credit Rating Agency recognized to rate the Insurer/Reinsurer internationally.

- (7) While submitting copy of reinsurance treaty pursuant to Sub-directive (4) of Directive 2, proof of Reinsurer's rating has to be enclosed.
- (8) In case of decrease in rating of the Reinsurer as per Sub-directive (6), reinsurance arrangement with such Reinsurer should not be renewed.
- (9) Risk cannot be covered without confirmation of Reinsurer in case facultative reinsurance is required. Such Reinsurer should be selected considering the Reinsurer's capital, goodwill, capacity and experience as well.
- (10) Insurer not having its Head Office in Nepal is not allowed to do transaction with its Head Office as Reinsurer.

#### **5. Insurer's retention**

- (1) Insurer's top retention per life under the policy issued by the insurer doing life insurance business should not be more than 0.1% of its net worth in Nepal.
- (2) Maximum retention per life can be up to Rs.300,000 in case of insurer having its main office in overseas.  
**Note:** It would be appropriate to downgrade its retention according to the nature of risk while the Insurer determines retention. Insurer can determine any one risk on its own.

#### **6. Catastrophe Reinsurance requirement:**

- (1) Adequate Catastrophe Reinsurance has to be done for the risk under the policy issued by the Insurer.
- (2) The maximum retention limit under Catastrophe Reinsurance Treaty can be up to Rs.20, 000,000 (20 million).
- (3) Appropriate and sufficient Catastrophe Reinsurance should be done for the sum of Net Liability retained by the insurer per directive-4, sub-directive 1 & 2 and Probable Maximum Loss on the insurance coverage inside a geographical region having the highest number of insurance coverage under the policy issued by an insurer.

**Clarification:** For the purpose of this directive, geographical region indicates Kathmandu valley and sub-metropolitan cities outside the Kathmandu valley.

- (4) In case where it is not possible to segregate insurance coverage issued in a geographical region per Sub-directive (3), the Catastrophic Reinsurance should be based on the sum of Net

Liability retained by the Insurer as per Directive 4, and the Probable Maximum Loss.

**7. Provision regarding selection of reinsurance broker**

- (1) Insurer can do reinsurance directly or through reinsurance broker.
- (2) In case of reinsuring through reinsurance broker, selection has to be done considering the broker's capital, goodwill, capacity and experience.
- (3) While doing reinsurance through reinsurance broker, proof of Professional Indemnity Policy done through such broker has to be acquired.
- (4) Reinsurance broker as per Sub-directive (2) should be at least BBB rating from Credit Rating Agency as per Sub-directive (6) of Directive 4.

**BEEMA SAMITI  
(INSURANCE BOARD)**



**REINSURANCE DIRECTIVE FOR NON-LIFE  
INSURANCE - 2065**

**(UNOFFICIAL TRANSLATION)**

**Date of first implementation: 2065/04/01 (July 16, 2008)**

Insurance Board has issued the following **Reinsurance Directive for Non-life Insurance - 2065** for the purpose of Sub Rule (2) of Rule 6 of Insurance Regulation, 1993 by making reinsurance policy and provision pursuant to the authority given by section 28 of Insurance Act, 1992 to manage provision of reinsurance of all Insurers.

### **1. Brief Name and Commencement**

- (1) The name of this directive shall be **Reinsurance Directive for Non-life Insurance - 2065**.
- (2) (ii) This directive shall commence from the date set by the Board.

### **2. Reinsurance Provision**

- (1) Insurer has to make appropriate reinsurance policy according to its underwriting policy, net worth and its risk.
- (2) Under the reinsurance policy made per Sub-directive (1), following points have to be included.
  - (a) Type of reinsurance,
  - (b) Basis of selection of reinsurers (including leader) ,
  - (c) Basis of selection of reinsurance broker,
  - (d) Internal control system to monitor the reinsurance arrangements,
  - (e) Insurer's retention limit under each reinsurance,
  - (f) Maximum reinsurance limit under each reinsurance, and
  - (g) Other necessary information.
- (3) (a) Insurer's Board of Directors or the official authorized by Board of Directors has to prepare reinsurance policy as per Sub-directive (2) for each fiscal year and submit to the Insurance Board at least thirty (30) days before the end of each fiscal year.
  - (b) The Insurance Board should be notified about any reinsurance arrangement that took place separately during the mid of the period.

In case of the insurer not having its head office in Nepal, the office in Nepal will have to prepare its reinsurance policy and submit to the Board as per this directive.
- (4) Insurer has to submit to the Insurance Board the attested copy of Signed Slip/Cover Note of Reinsurance Treaty done for each fiscal year within forty-five (45) days after treaty becomes effective. However, this provision will not be applicable for facultative reinsurance.

- (5) Irrespective of anything written anywhere in this directive, the Insurer has to amend its reinsurance provisions as necessary upon immediate review of the same in case of amendment in underwriting policy, the financial condition of the Insurer getting worse/adverse, the rating of the Reinsurers going down or other necessary condition.
- (6) The Insurance Board can give necessary instruction on the reinsurance policy submitted as per Sub-directive (3) and reinsurance treaty submitted as per Sub-directive (4).
- (7) Reinsurance policy or treaty has to be amended per instruction of the Insurance Board as per Sub-directive (6).

### **3. Risk retention by the insurer**

Insurer cannot reinsure 100% of risk without retaining some portion of risk covered by each policy of the insurer.

### **4. Need for reinsurance**

- (1) Insurer has to reinsure the remaining portion of risk after retaining risk of its own.
- (2) Policy cannot be issued without adequate reinsurance arrangements of the portion, which cannot be retained as per Sub-directive (1).
- (3) Necessary process for renewal of reinsurance treaty has to be started thirty (30) days prior to the expiry of reinsurance arrangement under Treaty done as per Sub-directive (1).
- (4) While reinsuring as per Sub-directive (1), reinsurance arrangement should be made in a manner that any risk covered by the policy of the insurer is not skipped.
- (5) While reinsuring as per Sub-directive (1), reinsurance has to be done with local insurer registered with the Board, Reinsurance Company registered in Nepal or Reinsurance Company registered overseas.
- (6) While doing reinsurance with reinsurance company registered overseas as per Sub-directive (5), Reinsurers should be selected considering the Reinsurer's capital, goodwill, capacity and experience as well.

But, reinsurance for leader cannot be done with reinsurance company having credit rating less than BBB under the rating of Credit Rating Agency recognized to rate the Insurer/Reinsurer internationally.



- (7) While submitting copy of reinsurance treaty pursuant to Sub-directive (4) of Directive 2, proof of Reinsurer's rating has to be enclosed.
- (8) In case of decrease in rating of the Reinsurer as per Sub-directive (6), reinsurance arrangement with such Reinsurer should not be renewed.
- (9) Risk cannot be covered without confirmation of Reinsurer in case facultative reinsurance is required. Such Reinsurer should be selected considering the Reinsurer's capital, goodwill, capacity and experience as well.
- (10) Insurer not having its Head Office in Nepal is not allowed to do transaction with its Head Office as Reinsurer.

#### **5. Insurer's retention:**

Insurer's top retention per policy/per risk under the policy issued by the insurer doing non-life insurance business should not be more than 5% of its net worth in Nepal.

**Note:** It would be appropriate to downgrade its retention according to the nature of risk while the Insurer determines retention. Insurer can determine any one risk on its own.

#### **6. Catastrophe Reinsurance requirement:**

- (1) Adequate Catastrophe Reinsurance has to be done for the risk under the policy issued by the Insurer.
- (2) The maximum retention limit under Catastrophe Reinsurance Treaty should not be more than 10% of its net worth in Nepal.
- (3) Appropriate and sufficient Catastrophe Reinsurance should be done for the sum of Net Liability retained by the insurer per directive-4, sub-directive 1 & 2 and Probable Maximum Loss on the insurance coverage inside a geographical region having the highest number of insurance coverage under the policy issued by an insurer.

**Clarification:** For the purpose of this directive, geographical region indicates Kathmandu valley and sub-metropolitan cities outside the Kathmandu valley.

- (4) In case where it is not possible to segregate insurance coverage issued in a geographical region per Sub-directive (3), the Catastrophic Reinsurance should be based on the sum of Net Liability retained by the Insurer as per Directive 4, and the Probable Maximum Loss.

## **7. Provision regarding diversification of reinsurance**

- (1) Insurer has to adequately diversify its reinsurance arrangement.
- (2) To diversify its reinsurance arrangement per Sub-directive (1) insurer can cede up to forty percent of total reinsurance to the leader reinsurer and up to twenty percent to other reinsurer.  
But up to forty percent of total reinsurance can be ceded to reinsurers other than the leader provided their credit rating is not less than BBB.
- (3) Irrespective of anything written in sub directive (2) Insurer can cede up to sixty percent of its total reinsurance to the reinsurer having credit rating not less than AAA.
- (4) Irrespective of anything written in sub directive (2) and (3) Insurer can cede all of its total catastrophe reinsurance and facultative reinsurance to a single reinsurer.

## **8. Provision regarding selection of reinsurance broker**

- (1) Insurer can do reinsurance directly or through reinsurance broker.
- (2) In case of reinsuring through reinsurance broker, selection has to be done considering the broker's capital, goodwill, capacity and experience.
- (3) While doing reinsurance through reinsurance broker, proof of Professional Indemnity Policy done through such broker has to be acquired.
- (4) Reinsurance broker as per Sub-directive (2) should be at least BBB rating from Credit Rating Agency as per Sub-directive (6) of Directive 4.