

# Guide to Supervisory Intervention Framework, 2024

## 1. Preliminary

This guide is issued by the Nepal Insurance Authority (NIA) to provide clear instructions and standards to take timely and corrective measures (“supervisory intervention”) towards the (re)insurers who fail to comply with the regulatory requirements and sound industry practices as per the power given by Insurance Act, 2079. The key purpose of the supervisory intervention is to help Nepal Insurance Authority (NIA) identify risks or supervisory concerns at an early stage and intervene effectively to minimize losses to the policyholders, reduce likelihood of a failure of an insurer and preserve market confidence in the insurance industry.

The Insurance Act, 2079 provides the basis for which a number of corrective measures that NIA can take towards (re)insurers either as an early warning mechanism or in an extreme scenario, resolution action. The supervisory intervention will consider significance of the supervisory concerns taking into account the nature, complexity and risk profile of the (re)insurer.

## 2. Overview of Guide to Intervention for Risk-Based Supervision

The purpose of the Guide to Intervention is to raise awareness and improve transparency regarding the framework for intervening with insurers. It details the types of actions insurers can typically expect from the Nepal Insurance Authority (NIA), summarizing the situations where specific intervention measures might be anticipated. The Guide may be revised in the future to reflect any changes to the intervention process or the NIA's roles and responsibilities within it.

The Guide to Supervisory Intervention Framework should be read in conjunction with the NIA's Risk-Based Supervision (RBS) Framework. References in this document to insurers shall apply to reinsurers as well as micro-insurers unless otherwise explicitly stated.

This Guide will help the insurers understand the stages at which a number of different interventions would typically occur from NIA reflecting different circumstances. The higher the risk profile of the insurer, the higher the level of intensity of supervisory intervention they should expect. Given each circumstance might be quite unique, the types of intervention actions set out in this Guide should not be interpreted as being rigid or viewed as being exhaustive list of actions or expect the sequence of actions to follow based on what is prescribed in this Guide.

## 3. Interpreting the Guide to Intervention

The intervention process outlined in the Guide is not a rigid framework in which every situation is addressed through a predetermined set of actions. Given the variability in circumstances from case to case, the Guide should not be viewed as constraining the NIA's scope of action when addressing specific issues or companies. Furthermore, the NIA reserves the discretion to exercise its powers at different times or stages, depending on the particular circumstances.

#### 4. Technical Committee

A technical committee, comprising of the following members, shall be responsible for risk-based supervision of insurers and recommending the appropriate level of supervisory intervention based on the supervision ratings:

Coordinator	Executive Director, NIA
Member	Director, responsible for Risk based Supervision, NIA
Member	Director, responsible for Policy, NIA
Member	An Independent Expert appointed by Chairman of NIA
Member Secretary	Deputy Director responsible for Risk based Supervision, NIA

#### Terms of Reference (TOR) for the Technical Committee

- Conduct risk-based supervision of insurers.
- Report findings from the risk-based supervision of insurers.
- Provide ratings based on supervision findings.
- Determine priority ratings to establish the appropriate level of supervisory intervention.
- Issue supervisory letters to the insurer detailing findings and recommendations from the NIA's supervisory activities, including the Composite Risk Rating (CRR) and intervention stage rating.
- Monitor and review the effectiveness of supervisory interventions and recommend adjustments as needed.
- Collaborate and coordinate with other relevant departments or agencies to ensure comprehensive risk assessment and intervention.
- Advise on best practices and improvements to the risk-based supervision framework.

#### 5. Priority Rating and Interpretation

The table below shows how the Composite Risk Rating aligns with different Priority Rating.

Composite Risk Rating	Priority Rating
<b>Low</b>	Priority Rating 1: Routine Supervision
<b>Medium Low</b>	Priority Rating 1: Routine Supervision
	Priority Rating 2: Emerging Risk
<b>Medium High</b>	Priority Rating 2: Emerging Risk
	Priority Rating 3: Escalated Action
<b>High</b>	Priority Rating 3: Escalated Action
	Priority Rating 4: Formal Remediation
	Priority Rating 5: Resolution/ Liquidation

Further descriptions of various Priority Ratings are given in the table below.

Priority Rating	Description	Supervisory Intervention
<b>1. Routine Supervision</b>	Supervisory review of the insurer's financial condition, policies, practices and governance oversight do not raise any significant supervisory concerns for NIA.	Insurer will be subjected to normal risk-based supervision with routine off-site review of financials, statutory and management reporting and occasional on-site visits. NIA will assess, monitor and update risk profile and conduct periodic meetings with senior management of the insurer.
<b>2. Emerging Risk</b>	Early Warning Indicators (EWI) and other supervisory assessments have identified areas of concerns or deficiencies, and if they are not resolved on time, it could lead to problems arising under Priority Rating 3. Areas of concerns could be: deficiencies in financial condition, deteriorating trend in capital adequacy, ineffective corporate governance, business malpractices, issues with risk management, weaknesses in control procedures etc.	<p>In addition to routine supervision, NIA will communicate the list of areas of supervisory concerns to the insurer and ask for a remediation action plan to resolve identified issues within a given timeframe.</p> <p>More frequent on-site visits.</p> <p>Insurer required to provide additional and more frequent reporting.</p> <p>More frequent meetings between the supervisors and the senior management or with the Board of the insurer until the issues are resolved.</p> <p>Insurer should expect escalated monitoring by NIA if these areas of concerns are not dealt with in a timely manner.</p>
<b>3. Escalated Action</b>	Problems identified pose significant risk but not immediate threat to the safety and soundness of the insurer. Some of the problems could be: capital adequacy level close to the level of technical insolvency, major compliance issues, major conduct issues, poor corporate governance, major issues with risk management, very weak control procedures etc.	<p>The intensity of supervision will increase with frequent meetings between the supervisors and senior management or the Board of the insurer to discuss identified concerns and require immediate actions.</p> <p>Supervisor can intervene by imposing restrictions in certain areas (e.g., lines of business or operations or investments). Supervisor might enforce capital injection</p>

Priority Rating	Description	Supervisory Intervention
		<p>or require insurer to address any governance, risk management and/or controls issues urgently.</p> <p>Require independent reviews on key areas of concern.</p>
<p><b>4. Formal Remediation</b></p>	<p>Insurer has failed to remedy the issues or areas of concerns identified under Priority Rating 3 leading to worsening of the situation. If the problems are not rectified immediately, there is an imminent threat to safety and soundness and hence, the financial viability of the insurer.</p> <p>Some of the problems at this stage could be: capital adequacy level below the statutory minimum requirement, fundamental weakness in control procedures, weak governance and ineffective management or other areas that will immediately lead to withdrawal of insurer's license or liquidation as prescribed in the Insurance Act, 2079.</p>	<p>Supervisor might impose change in members of the senior management team and/or members of the Board of the insurer.</p> <p>Increase scope of restrictions that have previously been imposed (e.g., authorize withdrawal of new business).</p> <p>Insurer to submit recovery plan considering resolution options to protect the policyholders (e.g., asset disposal, business transfer, sale of the insurer).</p> <p>NIA can invoke setting up of the Special Management Committee at any time following the procedures prescribed in the Insurance Act, 2079.</p>
<p><b>5. Resolution or Liquidation</b></p>	<p>The insurer is no longer viable. The recovery plan has failed or insolvency is imminent or insurer meets one of the conditions of liquidation as set out in the Insurance Act, 2079 or recommendation has been made by the Special Management Committee to liquidate the company.</p>	<p>Withdrawal of insurer's license. Liquidation process will commence in accordance with the Insurance Act, 2079.</p>