Nepal Life Insurance: From Rule-Based to Risk-Based Solvency

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Overview

Solvency is a fundamental indicator of an insurance company's financial strength, reflecting its ability to meet policyholder obligations and absorb unexpected losses. It indicates the availability of capital relative to the volume of risk underwritten, the capacity to absorb unforeseen losses, and the ability to underwrite new business. It is one of the key measures closely monitored by regulators, policyholders, credit rating agencies, investors, reinsurers, intermediaries, and other market participants when assessing whether a life insurer can reliably meet future claims. In essence, it shows the financial buffer an insurer holds against its underwritten risks. In Nepal, this buffer has been reassessed under a new regulatory framework, leading to a notable shift in the industry-wide solvency picture with the introduction of the Risk-Based Capital and Solvency Directive.

Nepal Insurance Authority (NIA) is the regulator responsible for monitoring solvency across the country's insurance sector. As of FY26 (FY refers to the twelve months ending mid-July), Nepal's life insurance market comprises 14 life insurers and 3 micro life insurance companies. From FY24 onward, the Risk-Based Capital and Solvency Directive requires every insurer to comply with its requirements, replacing the earlier Valuation Directive, 2020. The Valuation Directive 2020 required insurers to conduct actuarial valuation of insurance liabilities and determine adequate technical reserves using prudent assumptions to ensure policyholder protection. Under the Risk Based Capital (RBC) framework, the solvency margin is calculated as Available Capital Resources (ACR) divided by Risk Based Capital (RBC) requirement:

- ACR is the excess of assets over liabilities, adjusted for the additions and deductions set out in the directive's annexures.
- RBC is the regulator-defined capital requirement calibrated to an insurer's specific risk profile, effectively an early-warning threshold for NIA.

The directive sets the supervisory target capital level at 130% (1.30 times). A rising solvency ratio signals a growing capacity to absorb shocks and is viewed favourably from a credit perspective; a falling one triggers closer supervisory attention long before an insurer is in actual distress.

Solvency control levels & supervisory response

NIA uses four control levels as an early-warning mechanism, each carrying its own set of supervisory actions:

Control Levels	Solvency Ratio	Supervisory Action
Internal Target Level	>130%	Ongoing monitoring Periodical onsite inspections
Supervisory Target Level (RBC level)	100%-130%	Remedial plans or requiring business plans Onsite inspections Frequent reporting requirements Capital injection Restriction on payment of cash dividends

Control Levels	Solvency Ratio	Supervisory Action
Regulatory Intervention Level	70%-100%	Business restrictions and/or restructuring measures Capital injection Restrictions on: Payment of cash dividends; Writing business; Lending or investments; Acquisitions Restructuring on: Board members or senior management; Reducing or mitigating risks; redesigning investment and reinsurance strategy
Mandatory Control Level (MCR Level)	45%-70%	Removal or replacement of board members or senior management Stopping new business and run-off portfolio Revoking (withdrawal) the license Winding up

Source: Nepal Insurance Authority (Risk Based Capital and Solvency Directive)

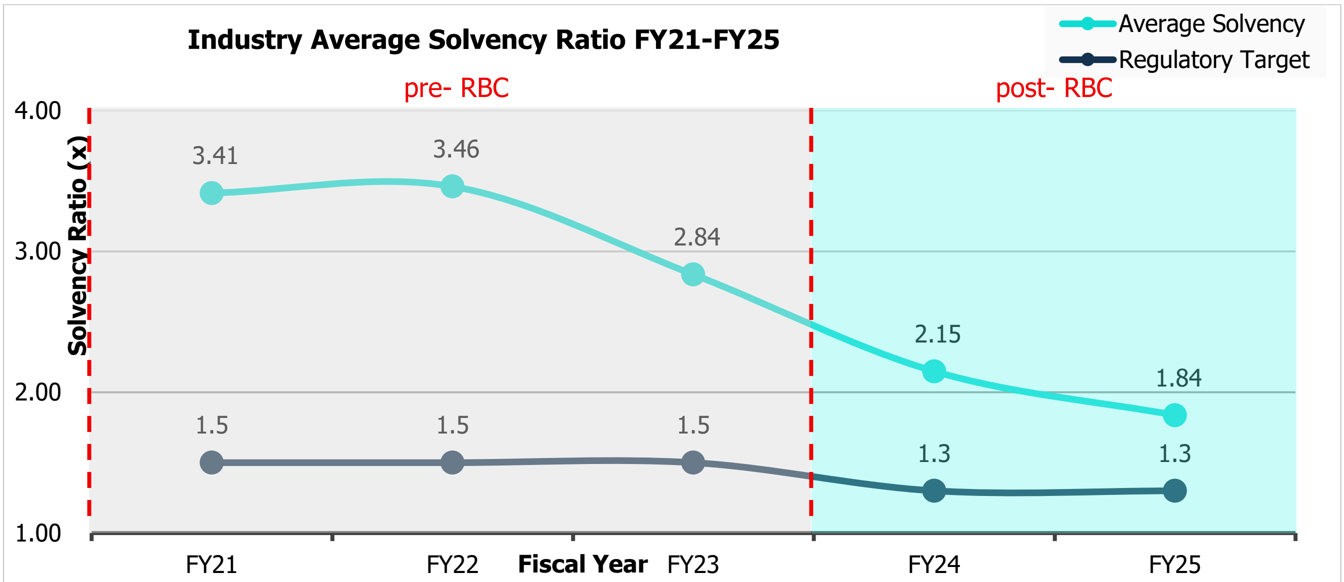
Solvency ratio of the life insurance company during FY21-FY25

There are 14 life insurance companies in Nepal. The table below tracks solvency ratios (expressed as a multiple of the required minimum) across all life insurers from FY21 to FY25. Rastriya Beema Company Limited is excluded due to non-availability of its annual report.

Particulars (x)	ALI	CLIC	HLI	IME	LICN	MLAL	NLIC	NLICL	PMLI	RNL	SJLI	SNLI	SRLIC
FY25	1.33	1.73	1.32	2.59	1.50	2.08	1.54	1.66	1.92	2.55	1.65	2.44	1.57
FY24	1.36	3.42	1.84	2.23	1.45	2.70	1.45	1.34	1.96	3.61	2.47	2.64	1.46
FY23	2.21	1.35	3.74	2.80	3.76	4.16	3.22	4.73	2.19	1.84	3.00	1.44	2.42
FY22	4.47	3.49	3.95	2.33	4.50	3.88	3.47	6.42	2.08	2.68	2.64	2.52	2.56
FY21	4.26	3.00	3.94	1.91	3.35	3.76	2.62	10.76	2.17	2.20	2.59	2.09	1.74

Source: Company filings

Figure: Industry Average Solvency Ratio and Regulatory Target, FY21-FY25 (pre-RBC: FY21-FY23; post-RBC: FY24-FY25)



Under the Valuation Directive regime, the industry's average solvency ratio remained relatively strong at around 3.24x during FY21-FY23. Following the adoption of the Risk-Based Capital (RBC) framework in FY24, the average ratio declined to 1.99x in FY24-FY25, reflecting a more risk-sensitive capital measurement approach rather than a weakening of the sector's underlying financial strength. The compression across FY21 to FY25 is broad-based rather than isolated to weaker players. The driver is not deteriorating balance sheets; it is a higher capital charge applied against various risk metrics under the new RBC methodology, which measures risk more granularly than the Valuation Directive it replaced. The implementation of the RBC framework represents a shift toward a more risk-sensitive approach to capital assessment, aligning Nepal's solvency regime more closely with international supervisory practices. As insurers gain experience operating under the RBC framework and adjust their capital management strategies accordingly, solvency ratios may evolve. However, the direction and magnitude of that change will depend on future business growth, risk profiles, and regulatory calibration.

By FY25, all life insurers remained above the minimum regulatory requirement, meaning the sector as a whole sits within the "Internal Target Level" band even after the recalibration. IME Life, Reliable Nepal Life, and Sun Nepal Life stand out as having the highest solvency position, while Himalayan Life and Asian Life sit toward the lower, though still compliant, end of the range. The narrowing spread between the strongest and weakest insurers points to a maturing market in which capital efficiency and disciplined risk management are becoming decisive competitive factors, rather than balance-sheet size alone.

Conclusion

The transition from the Valuation Directive regime to the Risk-Based Capital (RBC) framework marks a significant shift in the assessment of capital adequacy within Nepal's life insurance sector. While industry solvency ratios declined following the introduction of RBC in FY24, the decrease largely reflects a more rigorous and risk-sensitive measurement approach rather than any deterioration in insurers' financial strength. The framework aligns capital requirements more closely with the underlying risks borne by insurers, providing a more realistic view of their ability to absorb losses and meet policyholder obligations. Importantly, all life insurers remained above the minimum regulatory requirement, indicating that the sector continues to maintain adequate capital buffers. The transition has also reduced the disparity in solvency positions across insurers, highlighting the growing importance of effective risk management and capital efficiency. From a credit perspective, strong solvency remains a key indicator of financial resilience, supporting insurers' capacity to withstand adverse events and sustain future growth. The RBC framework further strengthens regulatory oversight by providing early warning signals and facilitating timely supervisory intervention where necessary. Going forward, solvency levels will increasingly depend on insurers' ability to balance business expansion, profitability, and prudent risk-taking. Overall, Nepal's life insurance industry appears well-positioned under the new regime, and the adoption of RBC is expected to support a more transparent, resilient, and sustainable insurance sector over the long term.

Annexure

Abbreviations of the Life Insurance Companies

- ALI = Asian Life Insurance Company Limited
- CLIC= Citizen Life Insurance Company Limited
- HLI = Himalayan Life Insurance Limited
- IME = IME Life Insurance Company Limited
- LICN = Life Insurance Corporation (Nepal) Limited
- MLAL = Met Life American Life Insurance Company Limited
- NLIC= Nepal Life Insurance Company Limited
- NLICL= National Life Insurance Company Limited
- PMLI= Prabhu Mahalaxmi Life Insurance Company Limited
- RNL = Reliable Nepal Life Insurance Limited
- SJLI= Surya Jyoti Life Insurance Company Limited
- SNLI = Sun Nepal Life Insurance Company Limited
- SRLIC= Sanima Reliance Life Insurance Limited

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