

INSURANCE REGULATION 2081 (2025 A.D.)

Introduction

On February 24, 2025, Government of Nepal (“GON”), enacted Insurance Regulation 2081 (2025 A.D.) (“Insurance Regulation”) pursuant to Section 168 of the Insurance Act 2079 (2022 A.D.) with immediate effect. The Insurance Regulation has repealed prior Insurance Regulation 2049 (1993 A.D.). The insurance business is regulated by Nepal Insurance Authority (“NIA”), an autonomous statutory body, which is a successor of prior Insurance Board. The Nepali Insurance Regulation can be accessed [here](#).

This Briefing aims to highlight major provisions of the Insurance Regulation primarily applicable to foreign insurance companies in engaging insurance business in Nepal.

Definitions

The Insurance Regulation defines key insurance service providers to ensure clarity, introducing terms not specified in other insurance legislation:

- **Underwriter:** A licensed insurance intermediary who analyzes the risks associated with insurable individuals or assets and determines the insurance premium and policy terms.
- **Claim Investigator:** A licensed insurance intermediary who investigates the validity of insurance claims and detects potential fraud or misrepresentation.
- **Insurance Aggregator:** A licensed entity that acts as an intermediary, helping customers compare insurance policies and premiums to select the most suitable option.

- **Product Developer:** A licensed individual or entity authorized to research, analyze data, and develop insurance policies.

Licensing Procedure

Any entity, including foreign companies, wishing to operate or invest in Nepal’s insurance sector or establish a branch must submit their financial statements, an audit report, or an auditor’s certification of investment capability, for prior approval from NIA along with application fee. If denied, the application fee will be refunded within 7 days. The prior approval and licensing fees are as follows:

Type of Insurer	Prior Approval Fee (NPR)	Licensing Fee (NPR)
Life Insurance	500,000	50 million
Non-Life Insurance	250,000	2.5 million
Micro insurance	100,000	5 million
Reinsurance	1 million	10 million

Operation of Insurance Business

The insurance regulation has expanded the classification of life and non-life insurance.

Classification of Life and Non-life Insurance

Insurance Regulation expands life insurance categories to include whole, term, temporary, micro, and miscellaneous insurance, beyond the prior classification of whole, endowment, and term insurance. Non-life insurance now covers home, property, business, transport, liability,

health, agriculture, livestock, herbal, and micro insurance, alongside fire, motor, engineering, aviation, and miscellaneous insurance.

Micro insurance

A micro-insurance is a type of insurance targeted to low-income individuals and people who are deprived economically, socially and geographically. In order to operate micro insurance business, minimum paid-up capital of NPR 750 Million must be maintained.

Re-insurance

Reinsurers must ensure retrocession is appropriate, and enough based on the business risks, nature, retention capacity, and credit rating of the reinsurer. Insurer must select a reinsurer that meets the criteria set by NIA. Prior to transferring a portfolio to another reinsurer, the reinsurer must notify the NIA and publicly announce the transfer at least twice in national daily newspapers and through other media channels.

Liaison office

A foreign insurer seeking to open a liaison office in Nepal must obtain NIA's permission and approval from their home country's regulatory body.

Foreign Insurers' Property Transactions

A foreign insurance company must obtain permission from NIA before selling or mortgaging immovable property or selling or mortgaging or repatriating movable property worth one million rupees or more.

Insurance Fund & Portfolio

Pursuant to Section 39(2) (a) insurers engaged in life insurance business shall allocate an amount to the mandatory reserve fund and establish a life insurance fund where the amount must be deposited. The funds from the life insurance fund of one portfolio shall not be transferred to another portfolio's life insurance fund, nor shall liabilities be transferred between funds.

Insurer's Accounting and Audit

Insurer must submit audited financial statements and reports as per NIA guidelines, including annual and quarterly reports. Internal audits must be completed within 60 days of each quarter's end and submitted to NIA. Actuarial valuation of assets and liabilities must be conducted annually and approved by NIA. The insurer must obtain prior approval from NIA, along with the necessary documents, before declaration of dividend.

Regulatory Actions for Distressed Insurers

NIA may initiate insolvency proceedings and freeze the assets of insurers who fail to meet their payment obligations within 3 years of due date. NIA can form three membered Special Management Group ("SMG") which will, among other responsibilities, oversee operations, implement corrective measures, and prepare a detailed financial statement reflecting the insurer's actual status. NIA can also order to layoff directors managers or employees for the improvement of condition of distressed insurers.

Merger or Acquisition

Insurers who wish to merge or acquire must submit the joint application to NIA with the assurance of need and rational for merger/ acquisition and protection of interest of policy holders along with other necessary documents. NIA may also grant necessary exemptions or facilities to encourage merger/ acquisition between insurance companies. If a foreign insurer wishes to transfer its portfolio to a domestic insurer they should obtain approval from their home country's regulatory body.

Settlement of Disputes

Complaints regarding losses suffered by the insured due to the insurer must be filed with the NIA within three months of the incident. The NIA is mandated to issue a decision within six months of receiving the complaint and ensure its enforcement. Additionally, the regulations provide for the formation of a three-member insurance arbitration committee to resolve insurance-related disputes. NIA is also responsible for the enforcement of the decision.

Action and Investigation

Insurance Regulation provides that NIA may suspend an insurer's license or prohibit an insurer to conduct insurance business for up to one year pursuant to Section 136 of the Insurance Act.

NIA can appoint an authorized employee to investigate an insurer. It shall be the duty of insurer to provide the requested document to investigator. Investigator shall submit the report of investigation along with their opinion within 7 days to NIA.

Various Funds

The funds required to be maintained by insurers are as follows:

- **Insurance Policyholders' Protection Fund:** Maintained in a separate account at a "Class A" commercial bank, this fund is used for payments in case of an insurer's liquidation, claims by policyholders or beneficiaries, and disaster-related expenses, as determined by the NIA.
- **Insurance Development Fund:** Aimed at improving insurance accessibility for economically disadvantaged groups.
- **Unclaimed Fund:** If the insured or their heir cannot be located within the prescribed period or the claim remains unpaid, the insurer must transfer any claim unpaid for one year to a separate unclaimed fund.

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