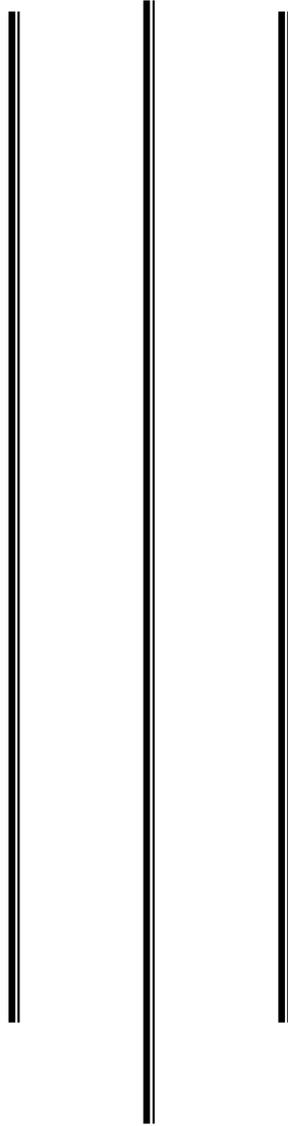


# **On Site Inspection Manual**

## **(For Insurers)**



## Section - one

### General

#### 1. **Background:**

The underlying philosophy of modern insurance supervision is **to identify problem early, act promptly and apply effective intervention**. Off-site and on-site inspection of insurers is at the core of the work of the supervision. The insurance supervisory authority carries out on-site inspections to examine the insurance business, its compliance with legislation and supervisory requirement and its exposure to risks.

#### 2. **Authority:**

Beema Samiti is constituted to systematize regularize, develop and regulate the insurance business of Nepal under Insurance Act, 2049. Section 39 of the Act, empowers the board for on-site inspection of Insurer, Insurance Agent, Surveyor, Broker and Insured.

Beema Samiti can delegate its power to any of its employee as per Section 43 of the Act.

#### 3. **Objective of the on-site Inspection:-**

Broad objective of on-site inspection of insurer is **to maintain efficient, fair, safe, and stable insurance market for policyholder's protection**.

However, specific objectives of on-site inspection can be summarized as follows;

- a. To determine the insurer's financial position and the quality of its portfolios and operations so as to ensure that it is not operating in a manner detrimental to the interest of the policyholders;
- b. To assess and appraise the competence and capability of the insurer's management and staff, as the quality of the management will determine the soundness of its operations;
- c. To ascertain whether the insurer is complying with applicable principles, laws, regulations and directives issued by Beema Samiti;
- d. To evaluate the adequacy of its records, systems, and internal controls;
- e. To evaluate the technical conduct, the commercial policy and the reinsurance coverage and its security;
- f. To analyze the relationships of insurers with external entities; and
- g. To test the accuracy and validity of data submitted.

#### 4. **Important Areas:**

To achieve the above objectives, following important areas of the insurer fall within the scope of inspection:

- a. Capital adequacy;
- b. Asset, liability management;
- c. Accounting and actuarial practices;
- d. Internal controls;
- e. Quality of underwriting (both the prudence of the underwriting policy and the effectiveness of its implementation in practice);
- f. Adequacy of technical provisions and funds;
- g. Security of reinsurance cover;
- h. Management competence and commitment;
- i. Earning capability;
- j. Solvency ;
- k. Risk management;
- l. Legal aspects;
- m. Market conduct and policy holders service;
- n. Claims management;
- o. Financial policy;
- p. Investment policy;
- q. Insurance Products;
- r. Distribution system;
- s. Human Resource Management; and
- t. Others.

**5. Identification of Inspection coverage and Scope:**

- a. In order to preserve the overall safety and soundness of the insurance system, all insurers should undergo a full-scope on-site inspection once in every three years. This monitoring process, normally conducted at least on the head office, should then be used to detect whether any insurer served indicates a material deterioration or weakness in its financial condition.
- b. A full scope inspection is also required, when a new insurer is licensed or when there has been a change in ownership and control in an already- existing insurer.
- c. For those insurers in need of special supervisory attention, additional inspection resources should be allocated to carry out a limited-scope or a target inspection within one year of the full-scope inspection, so as to ascertain whether the significant problems identified are being dealt with in an adequate and timely manner by the insurer in question. Limited scope inspections focus on specific activities of the insurer. If the insurer does not seem to be addressing the problems at hand, it must continue to be inspected on a twice a year basis until the situation is resolved.

## Chapter -Two

### **Duties Responsibilities and Code of Conduct of Inspectors**

#### **6. Duties and Responsibilities of Inspectors**

- a. Staffs performing inspection (Inspectors) should be mainly concerned with the overall soundness of the insurer and the insurer's compliance with Laws, Rules and Regulations. The emphasis of the inspection should be in accordance with scope of inspection.
- b. The inspectors, to a certain extent, may rely on the work of the external auditors and internal auditors to expedite the inspection. The inspector should consider the competence and independence of the auditors and the adequacy and effectiveness of the audit programs.
- c. This manual provides Guidance on the scope and procedures for on-site inspection of insurer. However, inspectors should use their investigative and technical skills when forming views about the information they obtain.
- d. The inspectors may give necessary directives to the insurer with prior consent of team leader as per The Insurance Regulation 2049, Rule 38 specifies that the Beema Samiti may give necessary directives to the insurer on matter deemed necessary while inspecting and supervising and it is the responsibility of the concerned insurer to abide by them.
- e. On-site inspection should be performed by using the procedures laid down in this manual as a guide rather than exhaustive process.
- f. The on-site inspection of insurer by Beema Samiti (its officials) doesn't mitigate the need for an insurer to carefully manage the risks of the business it undertakes.

#### **7. Inspectors' Code of Conduct:**

- a. As representatives of the Beema Samiti, the inspectors are charged with carrying out a statutory obligation.
- b. The inspectors should maintain the highest professional level in all dealings with the insurer's staff.
- c. Arrogance or any flaunting of authority are in poor taste and reflect unfavorable on the Beema Samiti.
- d. Courteous but firm should be the hallmark of the inspectors. That is, "courteous" in requesting whatever information is required and "firm" in pressing for the insurers' compliance with the request; "courteous" in discussing important matter arising from the inspection, but firm in getting a satisfactory answer or explanation.
- e. Above all, the inspectors should be objective and avoid all situations involving conflicts of interest.
- f. Inspectors should keep in mind that the insurer's management has the primary responsibility for conducting the insurer's affairs. The inspectors may question or criticize unsatisfactory aspects of the insurer's activities, but they must never take it upon themselves to instruct the insurer to pursue a certain course of action.

- g. All inspectors should keep the information on the impending examination in strict confidence.
- h. Inspectors should project image of confidence, respect and professionalism throughout the duration of the inspection.

### **Chapter-Three**

#### **On-site Inspection**

#### **8. Pre-Inspection Preparation**

Prior to the commencement of an inspection, the team leader (TL) must carefully plan the examination so that it will be effectively and efficiently carried out. During this planning phase, preliminary decisions about examination objectives, scope, and procedures, extent of testing, staffing and other related matters should be made. Equally important are the control procedures that provide an orderly way of administering and recording the inspection.

#### **9. Inspection Planning:**

- a. All planning efforts relating to an inspection should result in the drawing up of an inspection plan that consists of the followings:
  - i. Inspection objectives;
  - ii. Inspection scope;
  - iii. Sampling and verification;
  - iv. Inspection procedures and control;
  - v. Examination duration; and
  - vi. Personnel;
- b. In formulation of the inspection plan, the TL should take into consideration the following additional factors:
  - i. Whether it will be an inspection of the head office and/or a branch ;
  - ii. whether the insurer to be inspected is a life insurer or a non life insurer;
  - iii. The size and operational complexity of the insurer.

#### **10. Pre-inspection Review:**

In order to determine the specific inspection objectives and to identify the inspection activities required, a pre-inspection review and analysis should be carried out. Normally, the pre-inspection review and analysis should be preformed by the TL, with the assistance of the inspectors. The time required for this review and analysis may range from one day up to one week, depending on the size of the insurer (e.g.; number of policy issued) and its operational complexity. The pre-inspection review and analysis should include a review of the following:

- b. Comments or recommendation made in the previous inspection report as well as the responses noted from the insurer;
- c. Evidence with respect to concentration of risks, profitability, liquidity and capital adequacy based on off-site analyses as well as complain against the insurer;
- d. Latest external audit report (Preliminary Audit Report; Long form Audit Report; Final Audit Report);
- e. Information on the insurer's shareholding and organization structure;
- f. Detail of promoter/director related business; and
- g. Other significant information.
- h. Based on the above items, the inspectors should identify areas of interest and matters requiring more careful attention and follow-up.

### **11. Assignment of Inspection Personnel:**

- a. Budgeted hours for each category of work should be estimated based on the preceding inspection of the insurer, modified by changes in scope or other conditions identified. The estimated hours for all categories of the inspection should then be totaled and serve as a guide.
- b. Budgeting hours and allocating human resources should include the following considerations:
  - i. Extent of coverage for each topic of the inspection;
  - ii. Total amount of time budgeted for the overall inspection;
  - iii. The number and availability of inspectors required;
  - iv. Experience and skills of the inspectors;
  - v. Quality of records and data management system of the insurer;
  - vi. The need to provide practical training and experience to inspectors in all areas of the inspection;
  - vii. Proper coordination and assignment of inspection tasks so as to avoid duplication of effort; and
  - viii. Identification and assignment of priority areas of the inspection to insure timely completion of the inspection.
  - ix. Inspectors participating in the inspection should all be informed of the examination objectives, their areas of responsibility, budgeted time and other relevant matters.

### **12. Input to Inspection:**

- a. List of report and Schedule to be obtained from the Insurer in the beginning of the Inspection are as follows:
  - i. Overall organization chart and departmental organization charts;
  - ii. Chart of Accounts;
  - iii. Memorandum of Association;
  - iv. Articles of Association;
  - v. Resolution of the Annual General Meeting (AGM);
  - vi. Trial balance;

- vii. Financial Statements and supporting schedules;
  - viii. Schedules of investments;
  - ix. Schedule of sundry Creditors;
  - x. Statement of assets and liabilities;
  - xi. Maturity schedules for loans and advances;
  - xii. List of (BOD) directors and their related interests (financial and family);
  - xiii. Schedule of loans and advances to directors, officers and employees;
  - xiv. Schedule of big consumers which are defined as those with premium Rs. 1 million for Life Insurers and Rs. 10 million for General Insurers;
  - xv. Schedule of big claims which are defined as those with claim Rs 1million for Life Insurers and Rs. 10 million for General Insurers;
  - xvi. Schedule of off balance-Sheet items;
  - xvii. Business Plan;
  - xviii. Schedule of bad debts written off during the previous 12 month;
  - xix. Authority delegation issued by the insurer;
  - xx. Written policies, operations manuals, (underwriting policies, service, reinsurance, claims) guidelines;
  - xxi. External and internal audit reports;
  - xxii. Minutes of meeting of the Board of Directors;
  - xxiii. Resume of Board of Director;
  - xxiv. Insurance Policies and Endorsements;
  - xxv. Reinsurance contracts;
  - xxvi. Staff service, Rule;
  - xxvii. List of committees/sub-committees;
  - xxviii. List of agents;
  - xxix. List of Surveyors deputed by the insurer in previous 12 month;
  - xxx. List of offices (including collection centers);
  - xxxi. Salary Sheet of last month;
  - xxxii. Reinsurance Accounts;
  - xxxiii. List of Outstanding claims;
  - xxxiv. Rent/lease agreement;
  - xxxv. List of early claims; and
  - xxxvi. Others.
- b. The above are the usual records needed in order to conduct a proper full scope on-site inspection of insurer. This list is not exhaustive and the inspector may request further information (records) during the inspection. The team leader should use judgment in determining whether there is a real need to retain and/or request further documents.

### **13.First Day of the inspection:**

- a. The first day of the inspection refers to the first day at the premises of the insurer under examination. Upon arrival at the insurer to be inspected, the TL should introduce team members and request to meet the Chief Executive or officiating Chief Executive.
- b. In order to develop a good rapport with the officers of the insurer to be inspected, the inspectors should create a good impression on the first day of the inspection.

- c. During the preliminary discussion with the senior officer of the insurer the TL should request a work space for the inspectors with a reasonable amount of privacy access to a photocopying machine and telephone facilities. Also, a request should be made for any outstanding internal returns, reports and accounting schedules pertaining to details of the balance sheet as of the reference date of the inspection.
- d. If the data required for the inspection are available from existing schedules made up by the insurer, the inspectors should accept them as work papers, even if the format differs from that prescribed by the Insurance Board.
- e. In this preliminary meeting the inspectors should also endeavor to obtain from the senior officer of the insurer information about the operations and staff, any current problems, anticipated developments, etc.

#### **14. Inspection Procedures:**

The on-site inspection procedure of each area should consist of following steps;

#### **15. Preliminary Review:**

- a. Review of relevant sections of the previous on-site inspection reports;
- b. Obtain related basic record schedules and management reports;
- c. Determine the completeness and reliability of the data obtained.

#### **16. Analytic Review:**

Conduct an analytic review of each covering the following aspects;

- a. Risk exposure of insurer such as Credit Risk, Insurance Risk (Underwriting Risk, Catastrophe Risk, and Risk of Deterioration of Technical Provisions), Market Risk, Liquidity Risk, Operational Risks, and Group Risk etc. ( Definition of the risks are listed in appendix one);
- b. Legal aspect.

#### **17. System Appraisal:**

- a. Appraise the system of concerned activity of the insurer;
- b. Review the insurer's latest internal and external audit reports to note relevant comments and observations;
- c. Review and update the permanent file.

#### **18. Detailed Verification:**

Review the records, schedule, management reports or other relevant documents to verify the observation.

## **19. Concluding work:**

- a. Prepare a list of exceptions noted, submit a copy to the TL for review and comments;
- b. TL should discuss about the list of exceptions noted with the appropriate officials of the insurer;
- c. Consolidate the finding into the draft inspection report; and
- d. Organize and file the necessary documents systematically to facilitate future reference.

## **20. Inspection control:**

- a. Once the inspection has commenced, the TL must monitor the progress of the inspection and supervise as well as coordinate the work of the inspectors. Supervision and co-ordination of the inspector's work is necessary to prevent departures from the overall inspection plan. This will help the TL in providing on-the-job training to the inspectors and in evaluating the inspector's work.
- b. The progress of the examination should be closely monitored and controlled to ensure it is completed according to the inspection plan.
- c. For effective inspection control, the TL should conduct daily review of the work done.
- d. The work papers should be continually reviewed to determine whether the work done on specific areas is adequate and whether further work is deemed necessary.
- e. Although the initial planning of the field work is essential to ensure that the inspection can be carried out more effectively and systematically, the plan should be reviewed and revised (if necessary) as the inspection progresses.
- f. During the course of the inspection, plans may be revised based on the followings:
  - i. The quality and integrity of the records and the systems of the insurer;
  - ii. The sampling techniques used;
  - iii. The size of the samples to be taken;
  - iv. The cut-off point for detailed inspection analysis;
  - v. The degree of cooperation provided by the insurer's management and staff.
- g. At the end of each week, the TL should compare the actual time taken with the original (revised) inspection plan to determine any deviation during the week. Cumulative hours should be compared.

## Schedule –One

### COMPLIANCE ASSESSMENT

#### Introduction

The Compliance portion of the examination is designed to test a company's compliance with Insurance Act 2049, Insurance Regulation 2049 and Beema Samiti's directives insured form time to time. The focus of this standard is to evaluate compliance by insurers with statues and regulations and it should be reviewed in conjunction with other standards as outlined in respective functional areas of this guide.

S.N.	Areas	Particulars	WP Ref	Done By
1.	Licensing/ Registration	<p>⇒ Company has a valid license to conduct insurance business issued by the Beema Samiti.</p> <p>⇒ The license is renewed each year by Chaitra end or within 30 days thereof if extension granted by the Beema Samiti and the renewal fee Plan.</p> <p>⇒ The type of risk undertaken by the Company is within the purview of license condition.</p> <p>⇒ The insured is not otherwise disqualified under section 12 to carry out insurance business.</p> <p>⇒ The Company is duly registered under the Company Act.</p> <p>⇒ The capital structure of the company is within the purview of the Memorandum and Articles of Association.</p> <p>⇒ The company is duly registered under local authority.</p> <p>⇒ The business performed by the company is within the objective maintained in Memorandum and Articles of Association.</p>		
2.	Accounts, audit and financial Statements	<p>Accounts to be maintained adequately and separately and separately for each type of insurance business and to be audited b external auditor.</p> <p>⇒ The company has maintained accounts as prescribed by Beema Samiti and generally accepted accounting practices and that the accounts give true and fair view of its state of affairs and income and expenditure of the company. It will required that:</p> <p>⇒ The company has an accounting manual/guidelines and the accounting policies are applied consistently.</p> <p>⇒ The company has defined internal control structure.</p> <p>⇒ Audit committee is performing as per Company Act, 2063.</p> <p>Accounts is maintained separately for each type of insurance</p>		

S.N.	Areas	Particulars	WP Ref	Done By
		business: <ul style="list-style-type: none"> <li>▪ Fire</li> <li>▪ Motor Vehicle</li> <li>▪ Marine</li> <li>▪ Engineering and contractors risk</li> <li>▪ Aviation</li> <li>▪ Miscellaneous</li> </ul>		
		⇒ Audited financial statements together with audit report is published and submitted to the Beema Samiti within six months of annual closing. ⇒ Annual financial statements presented in the annual general meeting to disclose the result of each type of business. ⇒ The income from various types of insurance business is shown separately in the format prescribed by the Beema Samiti. ⇒ The funds received from each type of business are separately maintained and the fund relating to one class of insurance business is not used to discharge the liability of other class.		
3.	Conflict of Interest and related party transaction	⇒ The company has not given any loan and advances and issue guarantee to the Board of Directors, Managing Agent and its family members or partners of the firm/company where they have substantial pecuniary interest [Note: In case of life insurance business loan given to the extent of surrender value of policy is exempt from above and also refer Insurance Rule 13. Substantial interest is created where any of such person hold 10% or more shares in said entity Rule 13] ⇒ Insurance transactions made with the Board of Directors, Managing Agent or their relatives or firms or companies where they have interest to be notified to the Beema Samiti within 35 days of such transaction in a prescribed format. ⇒ Related party transaction is performed as per Company Act, 2063.		

S.N.	Areas	Particulars	WP Ref	Done By
4.	Reserves Requirement	<p>The Company has maintained adequate Reserve to meet the prospective loss</p> <p>⇒ The company is required to maintained the following Reserves:</p> <p>a. Life Insurance Companies</p> <p>i. To meet all obligation as determined by the actuarial valuation. Such report to be submitted to the Beema Samiti and Beema Samiti's approval obtained for making provision as per the report. Note: Actuarial valuation of assets and liabilities is performed every 3 years by an actuary approved by the Beema Samiti.</p> <p>ii. Actuarial to be a fellow member of the Institute approved by the Beema Samiti.</p> <p>b. Non-life Insurance Companies</p> <p>i. Minimum 50% of the Net premium income for the year.</p> <p>ii. In case of marine insurance the transfer not to be transferred to profit at least for 3 years from the date it was created.</p> <p>iii. In case of company carrying out life and non-life business the reserves and corresponding funds are to be separately maintained or each type of business.</p> <p>iv. The non-life insurance company to transfer 50% of the net profit to general reserve till such reserve equals the paid up capital.</p> <p>v. 115% of outstanding claims at the year end.</p>		
5.	Premium	<p>⇒ The premium is received in advanced before issuing the policy/ cover Note. If full advance payment is not received it should be paid within agreed time limit against the guarantee of a bank or Government.</p> <p>⇒ The company to charge premium at the rate prescribed by the related tariff.</p> <p>⇒ Premium is received in gross basis ( neting off agency commission is not allowed).</p> <p>⇒ Refund of Premium must be justified.</p> <p>⇒ In case of marine insurance where L/C is cancelled before shipment of goods, services charge not exceeding 5% of premium could be levied and balance refunded to insured.</p>		
6.	Investment	<p>⇒ Company must have an investment Committee comprising expert.</p> <p>⇒ Every investment (new or renewal) must be done as per decision of investment Committee.</p> <p>⇒ Company has to invest in areas prescribed by Beema Samiti in time to time in the manner prescribed.</p>		

S.N.	Areas	Particulars	WP Ref	Done By
		<p>⇒ Investment in banks, financial institution having inadequate Capital as prescribed by NRB is prohibited.</p> <p>⇒ Investment in Board of Directors related institution is prohibited. (Ref. Rule No. 13 of Insurance Regulation, 2049.)</p> <p>a. Prohibited investment</p> <p>i. Purchase, sale and leasing of land, building and other fixed assets must have prior approval of Beema Samiti.</p> <p>ii. Purchase of vehicle, computer, accessories and technology for the use of the insurer exceeding Rs 20 lacs (for each group) in any financial year to have prior approval of Beema Samiti.</p> <p>b. Returns</p> <p>Insurance companies to submit returns of investment to the Beema Samiti in a prescribed format quarterly within 30 days of end of each quarter.</p>		
7.	Claims	<p>Timing and procedure settlement of insurance claims</p> <p>⇒ Life Insurance Business</p> <p>a. On Maturity and partial maturity (in anticipated policies)</p> <p>i. The company has to notify the insured within 15 days of payment of last premium due under the policy.</p> <p>ii. Claims have to be paid within seven days of the expiry of the policy. If papers are submitted by the policyholders.</p> <p>b. On Death</p> <p>The legal heir of the insured to make claim with prescribed documents. The company after obtaining all the required documents to issued discharge voucher within 15 days of receipt of all documents. Claims have to be paid within 15 days of submission of signed discharged voucher. If in the opinion of the company the claim is not tenable the reason thereof shall be notified to the claimant.</p> <p>⇒ Non-Life Insurance Business</p> <p>i. The Company has to appoint surveyor immediately (within 24 hours) the claim intimation if necessary.</p> <p>ii. The surveyor <b>has</b> to submit report to the company within 15 days of the engagement and the amount due and payable under the policy shall be notified by the Surveyor to the insured. The company shall ordinarily discharge claim within 35 days of receipt of survey report.</p>		

S.N.	Areas	Particulars	WP Ref	Done By
8.	Reinsurance	Excess risk not retained by the company to be reinsurance as prescribed by the Beema Samiti.		
9.	Agents/Brokers Surveyors	<p>⇒ Service of agents surveyors and brokers availed by the company are duly approved by the Beema Samiti and hold valid license on transaction date.</p> <p>⇒ The commission paid to agents is prescribed by the Beema Samiti.</p> <p>The engagement of foreign surveyor to have approval of the Beema Samiti (except for claim control clause for aviation insurance).Such surveyor to work jointly with class "A" surveyors registered with Samiti.</p>		
10	Insurance policy/proposal disclosures	<p>⇒ The following particulars must compulsorily be disclose in insurance policy/cover note:</p> <ul style="list-style-type: none"> <li>▪ detail of risk covered</li> <li>▪ Period of cover</li> <li>▪ sum insured</li> <li>▪ rate of premium</li> <li>▪ total premium</li> <li>▪ receipt number of premium received</li> <li>▪ Date, place, time and name, designation and signature of authorized personal.</li> <li>▪ Insurance proposals received through Agents must have details of agent's name, registration number and signature.</li> </ul>		
11	Management Expenses	Management Expenses not to exceed 25% and 30% of gross premium income in respect of marine insurance and other insurance respectively.		
12	Extension of operation or line of business	<p>⇒ The company to obtain approval of Beema Samiti for carrying out additional type of insurance business that was not included in its license.</p> <p>⇒ Opening of a new branch office requires approval of Beema Samiti.</p>		
13	Service Fee	<p>The companies to pay 1% of gross premium to the Beema Samiti in a prescribed manner as under as a service fee.</p> <ul style="list-style-type: none"> <li>▪ Not less than 30% before Ashwin end.</li> <li>▪ Not less than 30% before Paush and Chaitra.</li> </ul>		
14	Life and Non-life insurance business to be separated	The existing company carrying out both life and non-life business to separate each lines of business in a prescribed manner from the date specified by the Beema Samiti.		
15	Appointed of legal Office	All insurance Companies must appoint a full time Legal Officer and their name, address and qualifications.		

S.N.	Areas	Particulars	WP Ref	Done By
16	Use of Nepal Language	Correspondence with Beema Samiti is made only in Nepali Language.		
17	Payment in Foreign Currency	⇒ Payment in Foreign currency earned from insurance, reinsurance, claim, commission and any other source to be made only with the prior approval of concern authority. ⇒ Prior to approaching any other authority, recommendation of Beema Samiti to be obtained for payment of reinsurance premium in foreign currency.		
18	Minimum Capital and rustication on transfer of promoters Share	Minimum paid up Capital is maintained. Promoters not be sate pledge, mortgage or otherwise transfer their ownership in Shares of insurance company for a period of 5 years from the date the lenience was granted.		
19	Submission of Report	The company has to submit its accounts to company Resistor, Tax authority and Security Beema Samiti within prescribed time.		
20	Service Rule	The company has to formulate and implement service rule as per prevailing Labor Act.		
21	Submission of Financial Statements and other returns Section 11A,23,24,25 ,&26	⇒ Audited Balance-Sheet and Profit and Loss A/C is published and submitted to the Beema Samiti within six months of annual closing. ⇒ The income from various types of insurance business is shown separately in the format prescribed. ⇒ Incase of life insurance business actuarial valuation of assets and liabilities is performed every three years.		
22	Audit Section 12	The company to have a full scope audit each year by an external auditor. The board of Directors should submit audit report together with management comments on audit qualifications to Beema Samiti.		
23	Loans, Advances or Guarantees not to be given to Directors or their associates. Section 14	The company shall not given any loan and advances and issue guarantee to the Board of Directors, Managing Agents and its family members or partners of the firms/company where they have substantial pecuniary interest.		
24	Insurance Business conducted	The company to notified Beema Samiti any insurance business transaction with the Managing Agents, members of the Board of Directors, their family or the firm or company		

S.N.	Areas	Particulars	WP Ref	Done By
	with the directors or their associates to be notified. Section 15	where they are partners within 35 days.		

## Schedule –Two

### RISK & CONTROL ASSESSMENT

S.N	Area	Particulars	WP Ref	Done by
	Internal Control	<p>⇒ Verify the existence of written Beema Samiti's circular/ethics. Selectively test the codes to determine if they adequately cover expected standards of conduct that affect significant internal and external business and employee relationships.</p> <p>⇒ Review the method used to communicate Beema Samiti's circular.</p> <p>⇒ Verify that written Beema Samiti's circular (i) are periodically communicated to all employees, (ii) are formally acknowledged, and (iii) cite consequences for violations.</p> <p>⇒ Verify that the insurer has a system to identify noncompliance with Beema Samiti's circular and pursue corrective actions.</p> <p>⇒ Determine whether policies and procedures address the situations and frequency of management intervention, required documentation and approval of intervention, and the strict prohibition of any management overrides.</p> <p>⇒ If applicable, selectively review documentation of management interventions or overrides. Assess compliance with policies and procedures.</p> <p>⇒ Review those documents that impact the internal control structure.</p> <p>⇒ Identify access to records problems which has impact on the ability to assess the internal control structure.</p> <p>⇒ Identify possible potential internal control weaknesses inherent in any system of recording of the accounting transaction.</p> <p>⇒ Determine the extent to which the insurer participated in self-governance programs, such as coordinated Audit Planning, or any procedure for reporting suspected irregularities.</p>		

S.N	Area	Particulars	WP Ref	Done by
2.	Board Of Directors	<p>⇒ Obtain a list of Board of Director members. Determine their relationship to the business and assess their independence.</p> <p>Review the minutes of the Board of Directors and all communications with the audit committee or body of similar authority to determine if the Beema Samiti is taking an active role in significant management decisions.</p>		
3.	Audit	<p>⇒ Determine whether internal auditors have adopted standards for the professional practice of Internal Auditing</p> <p>⇒ Verify that the internal audit department is functionally and organizationally independent to achieve objectivity in the conduct of its audits.</p> <p>⇒ Determine whether the insurer has an adequate audit plan for conducting internal control and compliance reviews.</p> <p>⇒ Verify that there are effective follow-up procedures on internal audit recommendations.</p> <p>⇒ Obtain the external auditor's report about material weaknesses of internal controls and/or management letter for the most recently audited year. Determine whether corrective action has been taken in response to internal control weaknesses.</p> <p>⇒ Identify the services provided to the insurer by the external auditors that have an effect on the internal control environment.</p>		
4.	Organization Structure	⇒ Complete or update the insurer's basic organizational structure questionnaire.		
		⇒ Review the current organization chart to determine whether it delineates clear lines of authority.		
		⇒ Verify that policies and procedures exist which specifically state the limitation or delegation of authority.		
		⇒ Verify that there is a clear assignment of responsibility and delegation of authority to deal with such matters as goals, objectives, operating functions and regulatory requirements.		
5.	Accounting	<p>⇒ Verify that management regularly conducts financial analysis and monitors performance. Observe that procedures are in place and appropriate management is being informed of adverse</p>		

S.N	Area	Particulars	WP Ref	Done by
		conditions.		
		⇒ Review notes to financial statements for any indication of potential adverse financial conditions and discuss these conditions with controller or other financial managers.		
		⇒ Verify that insurer periodically prepares and evaluates cash flow projections.		
		⇒ Determine that the insurer maintains a current description of the accounting system, including books of original entry, general and subsidiary ledgers, and any statistical and/or supporting records which demonstrate the initiation of transactions, the flow of documents and the identification of all points where correcting, adjusting or other cost transfers can be entered into the system.		
		⇒ Determine if the insurer maintains a chart of accounts which is updated in a timely manner.		
		⇒ Verify that adequate written policies and procedures exist for approving and documenting, correcting, adjusting, closing, credit and transfer entries.		
		⇒ Verify that adequate procedures exist for reconciling all subsidiary cost ledgers and cost objectives to the general ledger accounts. If this function is a computerized function, document how this is accomplished and selectively test to verify that it is occurring properly.		
		⇒ Verify that a trial balance is prepared on regular basis and reconciles to the financial statements.		
		⇒ Verify that adequate procedures exist for controlling monthly accrual calculations and that an adequate approval process is used.		
		⇒ Verify that there is adequate segregation of duties and responsibilities in such areas as access to accounting records, check-signing authority recording disbursements in cash journal and performance of Bank Reconciliations etc.		
		⇒ Determine whether policies and procedures require identification of systemic problems or trends based on error reports. Verify that corrections are processed in timely manner.		
		⇒ Determine that the insurer's disclosure statement is current and adequately describes its accounting		

S.N	Area	Particulars	WP Ref	Done by
		practices.		
		⇒ Documents, if applicable, any non compliance with the circulars and guidelines issued by the Beema Samiti that may impact the internal control structure.		
		⇒ Verify that adequate written policies and procedures exist for the identifications and exclusion of unallowable costs. Determine that the detail and depth of records required as backup support for proposals, billings, or claims are adequate to establish and maintain visibility of identified unallowable costs.		
6.	Investment	⇒ Determine that the insurer has a sound asset portfolio management policy and liquidity analysis is carried over are periodic intervals.		
		⇒ Determine whether the company has in force a sound investment policy and the company undertakes an analysis of the risk factor before the investment is made.		
		⇒ Determine that the BOD engages in reviewing the adequacy of the overall investment policy in the light of the insurance company's activities and its overall risk, tolerance, long term return, return requirements and solvency position.		
7.	Claim Handling	⇒ Examine that there is an independent checking of the rates or prices applied for claims and premiums etc. and the system is not totally dependent on the dealer for rate/prices information.		
		⇒ Examine and document whether or not the insurer has in force proper risk management systems to cover all risks to which the insurer is exposed and compressive monitoring and internal control system.		
		⇒ Examine whether or not the insurer has effective system in force which ensure that claims are reported to appropriate re-insurers and the insurance claim payments are being promptly collected.		

## Schedule C

### DETAILED ASSESSMENT

#### BALANCE SHEET ITEMS

##### Objectives

1. To determine the safe custody, existence, completeness and ownership of Fixed Assets.
2. To ensure that valuation methods used are appropriate and consistent with that of previous year.
3. To ensure the procurement procedure is free and open.
4. The financial statements present fairly the capital assets in accordance with generally accepted accounting principles, which is consistent with that of proceeding year
5. To determine that assets are managed in sound and prudent manner.

S.N	Area	Particulars	WP Ref.	Done by/Date
1.	Fixed Assets	⇒ Agree opening balance of fixed assets in the General ledger with previous years audited accounts.		
		⇒ Determine whether <ol style="list-style-type: none"> <li>a. Investment in fixed asset is made only after proper appraisal of the claims and other current liabilities.</li> <li>b. Verify that the procurement of vehicle, computer, accessories and technology exceeding (Rs 20 lacs) specified amount has been done after Beema Samiti's approval.</li> </ol>		
		⇒ Physical verification of fixed assets are carried out periodically and recorded.		
		⇒ Determine whether for procurement of fixed assets: <ol style="list-style-type: none"> <li>a. Prior approval of Board of Directors is obtained.</li> <li>b. Is administered according to budget</li> <li>c. Comparative analysis of suppliers is prepared for selection of suppliers.</li> <li>d. Is done on a free and open competition basis.</li> </ol>		
		⇒ Inspect evidence of ownership (eg, deeds, tax bills, and title policies for real property and		

S.N	Area	Particulars	WP Ref.	Done by/Date
		<p>registration certificates for vehicles). Obtain direct confirmation of ownership if a custodian holds the deeds.</p>		
		<p>⇒ Determine whether:</p> <ol style="list-style-type: none"> <li>a. Prior approval of Beema Samiti is obtained for sale/disposal of assets,</li> <li>b. Sale/disposal is on the basis of by laws of the insurance company,</li> <li>c. Profit/loss on sale disposal is properly accounted.</li> <li>d. Fixed assets withdrawn from operational use were removal from the fixed assets register and provision for loss/obsolescence has been made in the books.</li> </ol>		
2.	Investment	<p>⇒ Obtain schedule of the investment made by the insurer disclosing the total investment as compulsory and optional investment and determine whether the total agrees with the trial balance.</p>		
		<p>⇒ Verify the correspondence made with the Beema Samiti before making investment under category areas other than specified by Beema Samiti.</p>		
		<p>⇒ Verify that the insurers have not made any investment with co-operative institutions that are not approved by Beema Samiti.</p>		
		<p>⇒ Compare the ratio of interest earned to face value of fixed interest bearing securities for the current year with that of the previous year; verify the difference and the causes therefore.</p>		
		<p>⇒ Review the schedule of dividends/other income from investments to judge their reasonableness and proper accounting.</p>		
		<p>⇒ Examine the investments belonging to the entity and charges against the same.</p>		
		<p>⇒ Obtain and enquire about the preparation of the thenceforth quarterly statement and whether or not the Beema Samiti has been intimated within 30 days.</p>		
		<p>⇒ Acquisition and disposal of the investment is done only after the necessary approval is obtained from the Investment Committee.</p>		

S.N	Area	Particulars	WP Ref.	Done by/Date
		⇒ Obtain a schedule of the investment acquired by way of any bonus issued and confirm that no such investment has been left unrecorded.		
		⇒ Confirm that the valuation of the investment has been done on scientific basis and no risk of the under/over valuation of the investment prevails.		
		⇒ Ascertain that the estimate of the investment in each category is made at the beginning of each financial year.		
3.	Sundry Debtors	⇒ Obtain age wise details and break up of sundry debtors and review the sundry debtors account and the related accounts in the general ledger for unusual items.		
		⇒ Does the accounting system of the insurer ensure prompt recording and realizations and of linking receipts with outstanding amounts.		
		⇒ Obtain ageing schedule of debtors and clarify into the ling outstanding amounts		
		⇒ Calculate the average collection period.		
		⇒ Verify in case of the risk undertaken on the guarantee of the bank or the Government for which the premium is outstanding, the premiums are appearing as debtors for a significantly long time. Noting the causes for non-settlement.		
		⇒ Consider need for the provision/write off of any unrecoverable balances.		
		⇒ Scrutinize the ledgers or the sub-ledgers for any unusual transactions.		
4.	Staff Loan and Advances	⇒ Verify opening balance with previous month accounts.		
		⇒ Verify on test basis whether loans and advances to staff have been made according to by laws of the insurers.		
		⇒ Advances made to the employees whether timely liquidated or not plus any further advance was disburse before adjusting the advance give at the earlier date(s).		
5.	Cash And Bank Balance	⇒ Obtain the bank reconciliation statement and enquire into the periodicity of reconciliation done.		
		⇒ Obtain list of the bank accounts and the balance confirmation certificates.		

S.N	Area	Particulars	WP Ref.	Done by/Date
		⇒ Physically verify cash by way of surprise check, if deemed necessary.		
		⇒ Assess the system of deposits of cash made to the bank and note down the instances of failures to deposit the sum collected within a reasonable time.		
		⇒ Ensure that the payments received by way of cheque are in the name of the company.		
		⇒ Enquire into any long outstanding amounts appearing in the bank reconciliation statement.		
6.	Government Guarantees/Bank Guarantee	⇒ Examine documents including correspondence and other evidence to verify the validity of guarantee issued.		
		⇒ Ascertain whether commission income has been taken up properly (10 items only)		
		⇒ Ascertain whether a security way of margin has been undertaken by the insurers from the bank/Government t for accepting the risk on the insurance.		
		⇒ Review the expired guarantees still listed as outstanding.		
7.	Other liabilities and Accruals	⇒ Agree opening balances of other liabilities proper year's audited accounts.		
		⇒ Obtain list of other liabilities and accruals and verify with general ledger, trial balance.		
		⇒ Verify computation of period accruals.		
		⇒ Reconcile the premiums received fro, subscribers with the bank accounts and note down the differences.		
		⇒ Review liabilities recorded after year end.		
		⇒ Vouch other liabilities and accruals to supporting documentation (invoices, contracts, covering letters etc.)		
		⇒ Review classification.		
8.	Management Expenses	⇒ Obtain monthly payroll.		
		⇒ Check the arithmetical accuracy regarding preparation of payroll.		
		⇒ Check that the payrolls have been prepared, checked and approved by persons who are responsible for the same.		
		⇒ Verify that tax deduction from salary have been deposited with the Revenue Department of		

S.N	Area	Particulars	WP Ref.	Done by/Date
		Nepal Government in time.		
		⇒ Confirm that the cash withdrawal for disbursement of pay agrees with the net salary payable to the employees as per payroll.		
9.	Gratuity	⇒ Determine the applicable rates for gratuity payment/provision.		
		⇒ Obtain list of gratuity payable		
		⇒ Verify the calculation made for gratuity		
		⇒ Determine whether provision is to be made for gratuity on the basis of above		
10.	Public Relation Expenses	⇒ Obtain list of break up of costs under broad heads of public relation expenses and vouch significant amount with supporting documents for:		
		⇒ reasonableness of such expenses		
		⇒ budgetary outlay of such expenses		
		⇒ approval appropriate authorities		
11.	travel	⇒ Select a sample of travel expense to ensure the appropriateness of costs by determining whether		
		⇒ Any international travel has been properly approved.		
		⇒ Travel charges are supported by adequate documentation. Travel vouchers should show: i. time and date of departure and arrival ii. at each location, iii. locations visited, iv. details of cost incurred supported by documentation, v. purpose of the trip, vi. Approval by a responsible official.		
12.	Repair And Maintenance	⇒ Obtain a list of break up of cost under the broad Repair and maintenance.		
		⇒ Verify that the invoices, bills that are attached therewith are adequate and can be relied upon as not being fake. E.g. bills, invoices for:		
		⇒ Reasonableness of such expenses		
		⇒ Allocability of such expenses		
		⇒ Budgetary outlay of such expenses		
		⇒ Verify that the Beema Samiti has properly sanctioned such expenses		

S.N	Area	Particulars	WP Ref.	Done by/Date
		⇒ Ensure that expenditure in capital nature have not been accounted for under this head.		
13.	Insurance Premium expenses	⇒ Verify that the premium in respect of risks incepting during the relevant accounting year has been accounted for as the premium income of that year. ⇒ Verify the premium received and recorded during the year for the different lines of insurance business with reference to the bank/cash/books/ premium register ect. ⇒ Scrutinize the transactions at the end of the year and determine that the cut-off procedures followed by the insurer are adequately safeguarded. ⇒ Check that the premiums are recorded originally at the gross figure i.e., without providing for the un-expired risks and re-insurance. ⇒ Verify that the premiums are received incase of re-insurance business is sufficiently allocated and only the premium pertaining to the concerned insurance company has been accounted for in the books of the accounts. ⇒ In case of cancellation of the policies undertaken, verify that the reason is just and not to the detriment of the policyholder's interest. ⇒ List down the infringements of the Beema Act, 2049, if there be any where the risk assumed without receipt of premium as prescribed by the Beema Act or, verify the documents pertaining to the guarantee furnished if it prevails where the risk has been assumed by the insurer on the basis of the guarantee furnished by the bank of Government of Nepal.		

S.N	Area	Particulars	WP Ref.	Done by/Date
14.	Claims	<p>⇒ Verify whether the insurer has made adequate provisions for the discharge of the claims outstanding at the end of the financial year.</p> <p>⇒ Scrutinize that the provision has been made for the claims for which the insurer is legally liable i.e., when the risk is covered by the policy.</p> <p>⇒ Obtain the schedule and the explanations from the insurer's employee of the computation of the reserve's balance</p> <p>⇒ Obtained the schedule of the claims met by the insurer during the relevant financial year disclosing the date of making of the claim and its disposal. Also, obtain the claims pending settlement at the yearend with the reasons specified and document the details of at least 10 claims.</p> <p>⇒ Verify that the claims payment has been sanctioned by authority concerned and the amounts of the payment are duly acknowledged by the claimants</p> <p>⇒ Perform calculations of the claim met by the insurer during the financial year on a sample basis, and verify that the claim payment is proportional as per the terms agreed upon with other insurers, in cases of the re-insurance.</p> <p>⇒ Vouch the claims met are in respect of the type of risk accepted by the insurers as per the cover letter/dispatch notes.</p> <p>⇒ If the claim payment is reduced by collection charges, determine that the statutes, rules and regulation permit such reduction.</p> <p>⇒ Select and review the litigate claims file identifying data such as claim/policy number, date of loss and claimant's name determine the basis of the suit and company position for denial or settlement order</p> <p>⇒ Document the claims form in use for the line of business and be acquainted with the content and appropriate usage and document the violations and non-compliance of the forms.</p> <p>⇒ Determine that the discharge of claim has been accounted for in the accounts relating to that specific line of insurance business and not otherwise</p> <p>⇒ Determine if coverage was checked for proper</p>		

S.N	Area	Particulars	WP Ref.	Done by/Date
15	Non-interest Income/Expense	<p>⇒ Review the expense accounts in the general ledger for unusual items; investigate any such items observed.</p> <p>⇒ Compare the current year's expenses to the prior years actual and the current year's budgeted amounts.</p> <p>⇒ Perform an overall test of payroll expense by (1) comparing payroll costs by department with the prior year's budgeted amount, (2) reviewing the number of employees and the year-to-date listing of amounts per employee.</p> <p>⇒ Review the non-operating incomes for unusual items. Also investigate for extraordinary items credited to the profit and loss account.</p>		

S.N	Area	Particulars	WP Ref.	Done by/Date
16	Revenue Accounts	<p>⇒ Does the company have an effective system to ensure that premiums or risk assumed/accepted during the year for various classes of business properly computed and accounted for.</p> <p>⇒ Is the system of collection of premiums on policies issued adequate, if not, enumerate the instances of major violations of the relevant legal provisions and prescribed.</p> <p>⇒ Note down the instances of prohibited/declined risk having been accepted in excess of the delegated authority.</p> <p>⇒ Examine whether the system if the company ensure proper recordings of the incoming and the outgoing-insurance transaction and periodic reconciliation of the co-insurance balance.</p> <p>⇒ Were the re-insurance treaties entered into by the company in the best interest of the company? Indicate the cases of re-insurance treaties, which have resulted in heavy losses continuously.</p> <p>⇒ In respect of the system relating to claims, examine the following aspects giving instances of the significant deviations/failures in each case.</p> <p>⇒ Are the claims promptly recorded and the claims register for each class of business? Is the liability of the company ascertained/assessed expeditiously?</p> <p>⇒ Are the surveyors appointed and their preliminary/final survey reports obtained within a reasonable time?</p> <p>⇒ Is collection and accounting of salvage as well as its disposal expeditious</p> <p>⇒ Does the system of the company ensure that claims are recorded net of co-insurance?</p>		

S.N	Area	Particulars	WP Ref.	Done by/Date
17	Reinsurance Premium/Claims	<p>⇒ Obtain detail schedule of the re-insurance treaties entered into for both the proportional and non-proportional re-insurance.</p> <p>⇒ Verify the re-insurance treaties entered by the insurer with other parties on a sample basis and calculate that re-insurance premium/commission has been discharged/accepted as per the agreed terms.</p> <p>⇒ In case where the insurer under review is the prime mover and the claim has been paid by it on behalf of other parties to the re-insurance, obtain clarification on the steps taken by the insurer for the recovery of the share of the other party due and list down the failures if there be any.</p> <p>⇒ Verify the covering letter relating to the re-insurance involvement and enquire about compliance with the terms of the treaties entered into.</p> <p>⇒ Verify and examine the basis of selection of the re-insurer and the method of assessing the security.</p>		

S.N	Area	Particulars	WP Ref.	Done by/Date
18.	Agent's Commission/Premium	<p>⇒ Verify whether the agent's commission has been listed, analyzed and reconciled for the purpose of adjustment.</p> <p>⇒ Verify whether there is any old outstanding debit or credit balances as at the year-end, which require provision/adjustment. Obtain a written explanation from the management as to the nature of such balance particularly, if these are doubtful or recovery.</p> <p>⇒ Verify whether and to the extent to which Inspectors' balances or of other development staff has been included in the agent's balance.</p> <p>⇒ Verify that agent's balance do not include:</p> <ul style="list-style-type: none"> <li>vii. employee's balance</li> <li>viii. Balances of other insurance companies and ensure that, in case of premiums there are no debt balance, and in case of commission the debt balance, and in case of commission the debt balance, and in case of commission the debt balance are appropriately explained.</li> </ul> <p>⇒ Scrutinize Agent's commission credit balances to verify whether any commission has been adjusted on direct business procured by the company through its Inspectors/Development staffs.</p> <p>⇒ Vouch adjustments/payments against the outstanding balances in agent's balance.</p> <p>⇒ Ensure that the relevant control account in the general ledger in reconciled with the subsidiary records and the agent's balances have been properly analyzed after considering adjustment of the balances for various classes of business relatable to same agent.</p> <p>⇒ Securitize that no agents' commission has been charged for direct business procured.</p>		

S.N	Area	Particulars	WP Ref.	Done by/Date
19.	Agent's Balances	<p>⇒ Verify whether the agent's balances have listed, analyzed and reconciled for the purpose of adjustment.</p> <p>⇒ Verify whether the outstanding balances in outstanding premium Account have been listed, analyzed and reconciled for the purpose of adjustment, and whether recoveries of large outstanding have been made in the post-audit period.</p> <p>⇒ Verify whether there is any old outstanding debt or credit balances as at the year-end, which require provision/adjustment and list down the reasons that are considered to prove that the balances are doubtful of recovery.</p> <p>⇒ Verify whether and extent to which Inspector's Balance or balance of the other development staffs has been included in the Agent's balance.</p> <p>⇒ Scrutinize Agent's commission credit balances to verify whether any commission has been adjusted on direct business procured by the company though its inspector/development staffs.</p> <p>⇒ Vouch adjustment/payments against old outstanding balances in the Agent's account.</p> <p>⇒ Ensure that the relevant control accounts in the general ledger is reconciled with the subsidiary records and the agent's balances have been properly analyzed after considering adjustment of balances for various classes of business relatable to some agents.</p>		

## Appendix One

**Catastrophic risk:** the risk that a single event of major magnitude leads to a significantly higher than usual number and/or amount of claims on an insurer. [Related definitions: Accumulation risk]. [Source: IAIS Issues paper on solvency, solvency assessments and actuarial issues, March 2000]

**Liquidity risk:** the risk emerging when the insurer fails to make investments (assets) liquid in a proper manner as its financial obligations fall due. [Source: IAIS Issues paper on solvency, solvency assessments and actuarial issues, March 2000]

**Market risk:** the risk to an insurer's financial condition arising from movements in the level or volatility of market prices. Market risk involves the exposure to movements of financial variables such as equity prices, interest rates, exchange rates or commodity prices. It also includes the exposure of derivatives to movements in the price of the underlying instrument or risk factor. Market risk also involves the exposure to other unanticipated movements in financial variables or to movements in the actual or implied volatility of asset prices and options. Market risk incorporates general market risk (on all investments) and specific market risk (on each investment). [Related definition: Matching risk]. [Source: IAIS Guidance paper on investment risk management, October 2004]

**Operational risk:** the risk arising from failure of systems, internal procedures and controls leading to financial loss. Operational risk also includes custody risk. [Related definitions: Non-technical risks]. [Source: IAIS Issues paper on solvency, solvency assessments and actuarial issues, March 2000]