

## Sun Nepal Life Insurance Company Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BBB- (Is) [Triple B Minus (Issuer)]</b>	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB- (Is)' assigned to Sun Nepal Life Insurance Company Limited (SNLIC). Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Nepal.

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to SNLIC takes into an account its experienced board and management team, moderate financial risk profile (sum of loss, commission and expense ratio) in FY22 (Unaudited; refers to the twelve-month period ended mid-July 2022) along with moderate policy continuation rate. Furthermore, the rating also derives strength from good asset quality of investment book, adequate reinsurance arrangement along with growing scale of operations supported by expanding geographical coverage through adequate branch network and improving trend in solvency ratio.

The rating, however, continues to be constrained by SNLIC's short track record of operations and presence in a highly competitive industry coupled with a modest market share in the life insurance industry. The rating also factors in increased combined ratio and exposure to regulatory risk pertaining to the life-insurance industry in Nepal.

*Going forward, the ability of the company to continue its growth momentum while diversifying the policy segments and maintaining quality of the investment portfolio will be key rating sensitivities. Furthermore, ability to maintain minimum regulatory solvency ratio at all times will be a key monitorable aspect.*

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced board and management team coupled with part of strong promoter group

SNLIC has five experienced members on its board led by Mr. Anuj Keyal who has been associated with the Keyal group in various capacities. The overall operations of the company are managed by Mr. Raj Kumar Aryal, CEO, having overall work experience of more than 16 years including his association with Insurance Board of Nepal. Mr. Aryal holds Master in Law (LLM) and has also served as Deputy Director and Head of the legal division of Insurance Board of Nepal. He is assisted by an experienced team across various functions.

The promoter group shares of the company are mostly owned by individuals and institutions related to Keyal Group, K.C. Group and Rungta Group.

##### Adequate geographical coverage through branches and sub-branches

SNLIC has a growing geographical coverage network which included 191 branches (including 161 sub-branches) and 29,033 insurance agents associated with the company as of mid-July 2022. The branches are spread over all 7 Provinces of Nepal and cover 18 districts (out of total 77 districts) of Nepal. The increase in branches on regular basis provides advantage to business growth in terms of marketing, branding and reaching close to customers.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

**Moderate financial risk profile**

During FY22, the company's gross premium written (GPW) increased by 44% to Rs. 2,717 Mn from Rs. 1,888 Mn during FY21 (Unaudited; refers to the twelve-month period ended mid-July 2021) supported by increase in branches and agents in FY21 and FY22 coupled with increasing insurance awareness in the country, particularly amid the covid-19 pandemic. The increase in premium collection is mainly driven by the increase in renewal premiums by 64% to Rs. 1,469 Mn in FY22 as compared to FY21 along with increase in the SNLIC's share in Foreign Employment Policies (FEP) pool to 20% in FY22 from 5% in FY21 thus, increasing the single premium collections. The growth in GPW is higher than the 14% growth in GPW of the overall industry in FY21, aided also by the relatively lower base of the company. Similarly, Net premium written (NPW) increased to Rs. 2,544 Mn in FY22 (FY21: Rs. 1,821 Mn) with retention ratio of 93.62%.

SNLIC's Net Underwriting result increased to Rs. 1,018 Mn during FY22 (FY21: Rs. 815 Mn) aided by improved business operations. Also, SNLIC's life fund also increased to Rs. 3,553 Mn at the end of FY22 (FY21: Rs. 2,309 Mn) in order to meet the future liability and support the policyholder return. Consequently, SNLIC reported increase in net profit to Rs. 215 Mn during FY22 (FY21: Rs. 92 Mn) on account of increase in underwriting result and investment income backed by increase in investment portfolio. Insurer shall also allocate minimum 10% of PAT towards catastrophe reserve as per regulatory requirement prescribed by Insurance Board. Thus, Catastrophe reserve of SNLIC stood at Rs. 57 Mn as on Mid-July 2022 which increased from Rs. 35 Mn. as on mid-July 2021. SNLIC's policy continuation rate remains moderate at 86% till Mid-July 2022, thus showing moderate persistency ratio of the insurance business. A healthy level of persistency and policy continuity rate indicates higher renewal premiums and a strong consumer franchise. Furthermore, it also indicates longer tenure of policy in force, which would enable the company to recover costs and make profits over the life of the insurance contract.

**Adequate reinsurance arrangement**

SNLIC has entered into reinsurance treaties with Nepal Reinsurance Company Limited where it cedes 20% of Sum Assured under each benefit of each policy (individual life policies and group term life policies) and Trust RE, Kingdom of Bahrain where it cedes (out of remaining 80% of sum insured) claim amount of more than Rs. 2 lakh in-terms of individual life policies.

**Good assets quality of investment book**

SNLIC had an investment portfolio (including investment in subsidiary company and interest bearing call account) of around Rs. 6,130 Mn during FY22 which increased by ~50% over FY21. Out of the total investment portfolio of SNLIC, it has invested 78.63% of the total investment as on July 16, 2022, in fixed and interest bearing deposit at different Bank and Financial Institutions which are readily marketable in nature and lends sufficient liquidity cushion to the company. Further, during FY22 company had moderate liquidity position with Liquid Assets to Technical Reserve standing at 1.58x.

With growth in investment portfolio, investment income of SNLIC comprises majorly of interest income from those investments. Further, SNLIC reported investment income (including interest income in interest bearing call account) of Rs. 413 Mn during FY22 recording a growth of ~51% over FY21. Average yield on investment of SNLIC was 9.05% during FY22 (FY21: 8.64%) on account of increase in interest rate of fixed deposit of different BFIs in FY22.

**Improving trend in solvency ratio**

SNLIC's solvency ratio stood at 1.71x during FY21 (2.09x without including cost of bonus) as compared to 1.62x during FY20 (1.88x without including cost of bonus) against the minimum requirement of 1.50x. The solvency ratio improved during FY21 on account of increased asset base of the company supported by improved business operations. With the increased capital base after right issue in FY22 (also IPO is proposed to be issued in FY23) and accretion of profits, SNLIC's assets bases likely increase along with increase in business volume, which ultimately is expected to further improve solvency ratio of the company to certain extent.

## Key Rating Weaknesses

### Short track record of operations coupled with relatively small market share in the life insurance industry

SNLIC started its operations during FY18 and has a relatively short track record of operations as compared with other established players. Currently, there are 19 life insurance companies operating in Nepal (10 companies were licensed and started operation after FY17 only), where SNLIC shared around 1.97% of total GPW in FY22 and ranked 16<sup>th</sup> position (out of 19 licensed insurance companies) reflecting low market share in the industry. However, SNLIC stands in 7<sup>th</sup> position (out of 10 companies licensed and started operation after FY17 only). Further, due to a relatively high number of life insurance companies present in Nepal, SNLIC is expected to face high competition to tap new customers leading to a challenging market dynamic to increase material market share.

### Increased combined ratio

The loss ratio (claim ratio) of SNLIC increased to 17.23% in FY22 from 8.52% during FY21 on account of increase in partial maturity claims in money back policies. During the initial year of operations, the claims were insignificant resulting into low claims ratio, which are expected to increase as the track record of operation of company increases. Increase in loss ratio could further squeeze the profitability. The commission ratio stood at 15.48% (PY: 18.32%) and expense ratio was 25.39% (PY: 27.14%) during FY22 (against the regulatory requirement of maximum 30%). Although loss ratio of the company is low compared to other peers and expense ratio has decreased as compared to previous years, the expense ratio are still much higher than other comparable peers given the small scale of operations. On back of increased loss ratio, combined ratio deteriorated to 58.11% during FY22 from 53.98% during FY21.

### Exposure to Regulatory Risk

The Insurance Board has specified regulatory requirement for all life insurance companies to make complete provision of the vested as well as future bonus liabilities by FY25. SNLIC has made provision for all the vested bonus and 30% of future bonuses as on mid-July 2021. The transfer to be made to the policyholders' fund may increase in upcoming years on account of future bonus liability provision, thus impacting the profitability of the company. Similarly, all life insurance companies are required to maintain minimum paid up capital of Rs. 5 Bn by mid-April 2023 as per the mandatory requirement of Insurance Board. The paid up capital of the company from promoter group was Rs. 1,400 Mn as on July 15, 2021, which has increased to Rs. 2,240 Mn as on July 16, 2022 after the issuance of 60% right shares amounting to Rs. 840 Mn in FY22. SNLIC is likely to meet further capital requirement through public issuances.

### About the Company

Sun Nepal Life Insurance Company Limited (SNLIC) is a life insurance company registered at Office of Company Registrar under the Company Act 2006 on October 16, 2007 and has obtained license from Insurance Board on August 02, 2017. SNLIC's assets base stood at Rs. 7,433 Mn as on July 16, 2022. The capital structure of the company comprises of a paid-up capital of Rs. 2,240 Mn as on mid- July 2022.

Brief financial performance of Sun Nepal Life Insurance Company Limited (SNLIC) during last 3 years is given below:

(Rs. In Million)

Particulars	FY20(A)	FY21 (UA)	FY22 (UA)
Total Gross Premium	1,099	1,888	2,717
Net Premium Earned	1,060	1,772	2,429
Income from Investment	228	273	413
Profit before Tax (PBT)	89	89	215
Profit after Tax (PAT)	91	92	215
Investments	2,701	4,099	6,130
Return on Total Assets (%)	3.31	2.32	3.53
Solvency ratio (including COB) (times)	1.57	1.62	1.71

A: Audited; UA: Unaudited

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