

## IME Life Insurance Company Limited

### Rating

Instrument	Amount	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	<b>CARE-NP BBB (Is)</b> <b>[Triple B (Issuer)]</b>	Assigned

CRNL has assigned the rating of 'CARE-NP BBB (Is)' to IME Life Insurance Company Limited (ILIC). 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 rating assigned to ILIC derives strength from ILIC's association with strong promoter group, experienced board & management team, moderate financial risk profile with improving combined ratio (sum of loss, commission and expense ratio) along with moderate policy continuation rate and moderate solvency ratio. Furthermore, the rating also derives strength from good asset quality of investment book, adequate reinsurance arrangement along with growing geographical coverage through adequate branch network.

The rating, however, is constrained on account of short track record of its operations, its presence in highly competitive industry coupled with relatively small market share in the life insurance industry. The rating also factor in concentration in endowment policies and impact of Covid-19 in life insurance industry.

*Ability of ILIC to continue its growth momentum while diversifying the policy segments and maintaining quality of the portfolio will be key rating sensitivities. Further, 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

##### ***Associated with strong promoter group***

ILIC is promoted by IME Group with total holdings of 50.90% as on Mid-April 2021. IME Group is an established group in Nepal with business across sectors like banking, remittance, hydropower, hospitality etc. The promoter group shares of the company are mostly held by Mr. Chandra Prasad Dhakal with 16.16% of total shares followed by Mr. Hem Raj Dhakal (16.16%) who are associated with IME Group and Global IME Bank Ltd. (14.29%) and IME Ltd. (4.29%).

##### ***Experienced board and management team***

ILIC has five experienced members on its board led by Dr. Ram Hari Aryal, Dr. Aryal has overall experience of over 3 decades and also associated with Government of Nepal for over 2 decades in various capacities. The overall operations of the company is managed by Mr. Kabi Phuyal and associated with company in the capacity of Chief Executive Officer (CEO). He has overall experience of ~12 years. He is assisted by an experienced team across various functions.

##### ***Adequate geographical coverage through branches***

ILIC has wide geographical coverage network of 124 branches (including 40 sub-branches) and more than 17,500 insurance agents are associated with the company as of Mid-May 2021. The branches are spread over all 7 Provinces of Nepal.

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

***Moderate financial risk profile with moderate policy continuation rate and improving combined ratio***

During FY20 (Unaudited; refers to 12 months period ended on July 15, 2020), the company earned gross premium written (GPW) of Rs. 1,400 Mn which increased by 52% over FY19. Net premium written (NPW) during FY20 also increased by 52% to Rs. 1,369 Mn with policy retention ratio of 97.72%. Furthermore, NPW of ILIC increased by 113% to Rs. 1,851 Mn (Rs. 869 Mn during 9MFY20) during 9MFY21 (Unaudited; refers to nine months' period ended on April 13, 2021) over 9MFY20. ILIC has been reported significant growth in Net Underwriting result (albeit low base) with Rs. 611 Mn during FY20 over Rs. 335 Mn during FY19 mainly due to addition of sub-branches and increase in awareness of insurance. Further, underwriting result improved to Rs. 886 Mn during 9MFY21 from Rs. 400 Mn during 9MFY20. ILIC reported net profit of Rs. 236 Mn during FY20 against net profit of Rs. 113 Mn during FY19. Net profit during 9MFY21 stood at Rs. 100 Mn. ILIC's policy continuation rate remains moderate at 82% till Mid-April 2021.

ILIC has reported increase in life insurance fund from Rs. 701 Mn in FY19 to Rs. 1,440 Mn in FY20. The loss ratio (claim ratio) of ILIC stood at 7.35%, commission ratio was 18.44% and expense ratio was 29.91% during FY20 (against the regulatory requirement of maximum 30%). Further expense ratio decreased to 17.55% during 9MFY21 mainly due to increase in scale of operations leading to better absorption of fixed cost expenses. On back of these, combined ratio improved to 55.70% during FY20 from 59.61% during FY19 which further improved to 53.73% during 9MFY21 due to improvement in commission ratio and expense ratio.

***Adequate reinsurance arrangement though Moderate solvency profile***

ILIC has entered into reinsurance treaties with Nepal Reinsurance Company Limited where it cedes claim amount of more than Rs. 4 lakh per life and Barents Re Reinsurance Company for catastrophic reinsurance where it cedes claim amount of more than Rs. 20 Mn.

ILIC has maintained 1.60x solvency ratio during FY19 which is just above minimum required ratio of 1.50x which was 1.17x during FY18.

***Good assets quality of investment book***

ILIC had an investment portfolio of around Rs. 2,915 Mn during FY20 which increased by ~36% over FY19. Out of the total investment portfolio of ILIC, it has invested 83.71% of the total investment as on July 15, 2020, 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 FY20 company had moderate liquidity position with Liquid Assets to Technical Reserve standing at 1.96x.

With growth in investment portfolio, investment income of ILIC comprises majorly of interest income from those investments. Further, ILIC reported investment income of Rs. 257 Mn investment income during 9MFY21 recording a growth of ~44% over 9MFY20. Average yield on investment of ILIC was 10.75% during FY20.

**Key Rating Weaknesses*****Short track record and competition from other insurance companies coupled with relatively small market share in the life insurance industry***

ILIC started its operations during FY18 and had its second full year of operation only during FY20. Currently, there are 19 life insurance companies operating in Nepal (10 companies are licensed and started operation after FY17 only) sharing total Rs. 94 Bn of Gross Premium Written (GPW) as on July 15, 2020; where ILIC shares only 3.02% of total GPW

and ranks 10<sup>th</sup> Position (out of 19) reflecting low market share in the industry in comparison to the established life insurance players. Further, due to increase in number of life insurance companies, ILIC is expected to face high competition to tap the new customers.

#### ***Concentration in Endowment policies***

ILIC's business is focused towards endowment segment and its variation with ~95% of NPW contribution from these policies during FY20 which further increased to ~99% during 9MFY21. Foreign Employment Term (FET) Policy contributed ~5% during FY20 which decreased to ~0.60% during 9MFY21 due to decrease in number of foreign employment by 75% in 8MFY21 and maturity of earlier foreign employment term policy.

#### ***Impact of Covid-19 in life insurance industry***

The major impact is witnessed in decline in premium received in certain types of insurance and premature death of people. Also, policy continuation could remain impacted by the decline in a propensity to save among the insured. To deal with the crisis, ILIC is focusing on digitalization of payment of premium and documentation related activities through online chat board.

#### **About the Company**

IME Life Insurance Company Limited (ILIC) is a life insurance company registered at Office of Company Registrar under the Company Act 2006 on October 1, 2008 and has obtained license from Insurance Board on July 4, 2017. ILIC has been offering an extensive range of products such as Money Back, Endowment, Whole Life, Term Assurance products etc.. ILIC is promoted by IME Group which has business across different sectors including banking, remittance, insurance, hydropower, hospitality etc.

ILIC's assets base stood at Rs. 4,764 Mn as on April 13, 2021. The capital structure of the company comprises of an authorized capital of Rs. 2,000 Mn out of which Rs. 1,400 Mn is subscribed capital from the promoter group.

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