

## Jyoti 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>	Reaffirmed

CRNL has reaffirmed the rating of 'CARE-NP BBB (Is)' assigned to Jyoti Life Insurance Company Limited (JLIC). Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

### Detailed Rationale & Key Rating Drivers

The rating assigned to JLIC continues to derive strength from its 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 solvency ratio. Furthermore, the rating also derives strength from good asset quality of investment book, adequate reinsurance arrangements along with adequate geographical coverage through growing branch network.

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

*Ability of JLIC to grow the business volume 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

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

JLIC has four experienced members on its board led by Mr. Nanda Kishore Sharma. Mr. Sharma is associated with the company since 2018 and has an overall experience of over a decade though his association with various companies in banking, finance and insurance sector in different capacities. The day to day operations of the company is headed by Mr. Prakash Bikram Khatri, Chief Executive Officer (CEO), who has an overall experience of over 12 years. He has wide experience in various financial institutions before joining JLIC in August 2017. He is assisted by an experienced team across various functions.

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

JLIC has wide geographical coverage network of 70 branches (including head office) as on Mid-April 2021 along with 48 sub-branches. Also, it has 18,742 insurance agents associated with the company as of Mid-May 2021 distributed all over Nepal. The branches are spread over all 7 Provinces of Nepal. JLIC has been continuously growing its branch network by adding new branches, it added 1 branch and converted 25 sub-branches to full-fledge branches in FY20.

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

***Moderate financial risk profile***

During FY20 (Unaudited; refers to 12 months period ended on July 15, 2020), the company earned gross premium written (GPW) of Rs. 1,889 Mn which increased by 86% over FY19. Net premium written (NPW) during FY20 also increased by 85% to Rs. 1,815 Mn. with policy retention ratio of 96.05%. Further NPW of JLIC increased by 101% to Rs. 2,211 Mn during 9MFY21 (Unaudited; refers to nine months' period ended on April 13, 2021) over 9MFY20. JLIC has reported significant growth in Net Underwriting result (albeit low base) with Rs. 963 Mn during FY20 over Rs. 400 Mn during FY19 mainly due to increase in policy issued which was supported by addition of branches. Furthermore, underwriting result improved to Rs. 1,419 Mn during 9MFY21 from Rs. 596 Mn during 9MFY20. JLIC reported net profit of Rs. 230 Mn during FY20 against net profit of Rs. 182 Mn during FY19. Net profit during 9MFY21 stood at Rs. 121 Mn. JLIC's policy continuation rate remains moderate at 88% in Mid-April 2021. JLIC has reported increase in life insurance fund from Rs. 692 Mn in FY19 to Rs. 1,862 Mn in FY20.

The loss ratio (claim ratio) of JLIC stood at 0.90%, commission ratio was 16.83% and expense ratio was 28.18% during FY20 (against the regulatory requirement of maximum 30%). Further, expense ratio declined to 17.96% during 9MFY21 mainly due to increase in business volume which resulted in better absorption of fixed cost. On back of these, combined ratio improved to 45.91% during FY20 from 58.29% during FY19 which further improved to 35.93% during 9MFY21 due to improvement in commission ratio and expense ratio.

Minimum required solvency ratio is of 1.50x which is calculated as per the regulatory directive considering regulatory capital requirement of NPR 2 billion. With the increase in admissible assets at the end of FY20, company was able to increase its solvency ratio from 1.83x in FY19 to 2.10x in FY20. Solvency ratio for FY20 is yet to be approved from Insurance Board.

***Adequate reinsurance arrangement***

JLIC has 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 Hannover Rueck SE where it cedes (out of remaining 80% of sum insured) claim amount of more than Rs. 2 lakh in-terms of individual life policies and more than Rs. 3 lakh in-terms of group term life policies.

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

JLIC had an investment portfolio of around Rs. 3,354 Mn during FY20 which increased by ~41% over FY19. As on July 15, 2020, out of the total investment portfolio of JLIC, the company has invested around 80% of the total investment in fixed and interest bearing deposit at banks and financial institutions which are readily marketable in nature and lends sufficient liquidity cushion to the company. Furthermore, during FY20 company had moderate liquidity position with Liquid Assets to Technical Reserve standing at 1.90x. With growth in investment portfolio, investment income has increased by ~31% during FY20 to Rs. 301 Mn over FY19. JLIC reported investment income of Rs. 308 Mn during 9MFY21 recording a growth of ~176% over 9MFY20. Average yield on investment of JLIC was 10.52% 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***

JLIC started its commercial 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 and JLIC shares only 1.73% of total GPW and ranked 12<sup>th</sup> 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, JLIC is expected to face high competition to tap the new customers.

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

JLIC has been offering an extensive range of products such as Money Back, Endowment, Whole Life, Term Assurance products etc. through its diversified sales network. However, JLIC's business is focused towards endowment segment and its accounted for ~95% of NPW contribution from these policies during FY20 which remains almost same during 9MFY21. With the concentration on endowment policies, company is unable to capture other sector of market.

#### ***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 propensity to save among the insured. To deal with the crisis, JLIC is focusing on digitalization of payment of premium and documentation related activities through online chat board.

#### **About the Company**

Jyoti Life Insurance Company Limited (JLIC) is a life insurance company registered at Office of Company Registrar under the Company Act 2006 on May 17, 2017, has obtained license from Insurance Board on September 4, 2017 and listed in Nepal Stock Exchange Limited on April 6, 2021.

JLIC's assets base stood at Rs. 6,621 Mn as on April 13, 2021. The capital structure of the company comprises of a paid-up capital of Rs. 2,200 Mn (70% promoter shares and 30% public shares).

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