

Reliable Nepal Life Insurance Limited

Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating ^[1]	Rating Action
Issuer Rating	NA	CARE-NP BBB (Is) [Triple B(Issuer)]	Assigned

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BBB (Is)' to Reliable Nepal Life Insurance Limited (RNL). Issuers with this rating are considered to offer 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 RNL derives strength from its experienced board and management team, adequate geographical coverage through branches, moderate financial risk profile and improving combined ratio (loss, commission and expense ratio) during 9MFY21. The ratings also factor in adequate reinsurance arrangement and good assets quality of investment portfolio with fair return on investment.

The rating, however, is constrained by short track record of operations and competition from other insurance companies coupled with relatively small market share in the life insurance, product mix concentrated towards endowment products and suboptimal solvency profile.

Ability of RNL to maintain the sustainable growth while diversifying the policy segment in the highly competitive industry will be the 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 Strength

Experience promoters/ management team with strong promoter group

RNL has six members on its board which is chaired by Mr. Udaya Nepali Shrestha. Mr. Shrestha has more than 15 years of experience in diversified industries. Mr. Shreeram Dhakal, Director, has more than 24 years of experience through his association with different industries including banking, finance and insurance. The company's other management team comprises of seasoned professionals having diversified experience including finance, banking, insurance. The day-to-day operations of the company is headed by Chief Executive Officer (CEO), Mr. Narayan Babu Lohani, who has more than 12 years of experience in finance sector and he is supported by other experienced management team members.

Adequate geographical coverage through branches

RNL has wide geographical coverage through its 89 branches (including Head Office) as on Mid-May 2021. The branches are spread over all 7 Provinces of Nepal. RNL has been continuously growing its branch network by adding new branches, it added 10 branches in FY19 and 13 branches in FY20. The increase in branches on regular basis provides advantage to business growth in terms of marketing, branding and reaching close to customers etc.

Moderate financial risk profile and improving combined ratio during 9MFY21

During FY19, the company's gross premium written (GPW) was Rs. 1,371 Mn which increased to Rs. 1,606 Mn during FY20 reporting a growth of 17.16% due to increase in policies issued which was supported by increase in branches and

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

agents. Accordingly, Net premium written (NPW) also increased by 23.26% to Rs. 1,535 Mn in FY20 from Rs. 1,245 Mn during FY19. NPW of the company further increased to Rs. 2,277 Mn during 9MFY21. RNL reported growth in Net Underwriting result (albeit low base) to Rs. 598 Mn during FY20. The growth in business was supported by addition of branches. Furthermore, underwriting results improved by 166.72 % to Rs. 1,102 Mn during 9MFY21 from Rs.413 Mn during 9MFY20.

RNL's life fund increased from Rs. 720 Mn at the end of FY19 to Rs. 1,454 Mn at the end of FY20. RNL reported net profit of Rs. 176 Mn during FY20 due to improvement in underwriting result. RNL's policy continuation rate stood modest at 78% till Mid-April 2020. During 9MFY21, RNL reported net profit of Rs. 203 Mn.

The loss ratio (claim ratio) of RNL was at 16.10%, commission ratio was 17.66%, expense ratio was 24.47% during FY20. On back of these, combined ratio was 58.23% during FY20 (FY19: 56.26%). However, combined ratio improved to 49.31% during 9MFY21 due to improvement in commissions ratio and expense ratio mainly due to increase in business volume which resulted in proportionate decline of fixed cost derived from scale benefits.

Adequate reinsurance arrangement

RNL has entered into reinsurance treaties with Nepal Reinsurance Company Limited where it cedes 20% of claim amount in case of conventional policy and 40% in case of Term Life Policy due to regulatory norms. Also, RNL has entered into an agreement with Hannover Reuck SE on the surplus basis with the retention limit of Rs. 5 Lacs. Commission received, premium paid and other services charged by Reinsurance companies and RNL is stated in treaties itself.

Good assets quality of investment book with fair return on investment

The company investment portfolio has been increasing on y-o-y basis and stood at Rs. 5,085 Mn at the end of 9MFY21 which increased to Rs. 3,665 Mn at the end of FY20 and represents growth of around 38%.

RNL has invested majority of the investments in the form of fixed deposits at different BFIs, which are readily marketable in nature which lends sufficient liquidity cushion to the company. Further, during FY20 company had moderate liquidity position with Liquid Assets to Technical Reserve standing at 1.85x. Out of total investment, ~80% of investment is in fixed deposit of different BFIs. As majority of investments of RNL are in deposits at different BFIs, investment income of RNL comprises of interest income from these investments. Investment income has increased by 41.51% during FY20 to Rs. 327 Mn. Average yield on Investment of RNL was 10.38% in FY20.

Key Rating Weaknesses

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

RNL started its commercial operation 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 RNL shares only 1.73% of total GPW and ranked 13th Position (out of 19) reflecting low market share in the industry in comparison to the established life insurance players. However, fast growing branch network with 89 branches and 15,688 insurance agents as of May 24, 2020 is likely to support RNL in its growth profile.

Product mix concentrated towards endowment products

RNL 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, RNL's business is focused towards endowment segment

and its variation in line with the industry trend with ~57% of NPW contribution from these policies during FY20 which further increased to ~67% during 9MFY21.

Suboptimal Solvency Profile

RNL's solvency ratio stood at 1.52x during FY19 (1.37x including cost of bonus) as against the minimum requirement of 1.50x. The solvency position is expected to improve going forward attributed to planned increased in capital base though proposed IPO plan and accretion of profits.

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, the company is focusing on digitalization of payment of premium and documentation related activities through online chat board.

About the Company

Reliable Nepal Life Insurance Limited (RNL) is a life insurance company registered at Office of Company Registrar under the Company Act 2006 on December 04, 2007 and has obtained license from Insurance Board on August 02, 2017.

RNL had an asset base of Rs. 6,080 Mn as on April 12, 2021. The capital structure of the company currently comprises of Rs. 1,400 Mn as paid-up capital from the promoter group and Rs. 600 Mn is proposed to be issued to the public through IPO. Currently all the shares of company are held by promoter shareholders.

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