

Sun Nepal Life Insurance Company Limited

Rating

| Instrument | Amount | Rating ¹ | Rating Action |
|---------------|--------|--|---------------|
| Issuer Rating | NA | CARE-NP BBB- (Is) [Triple B Minus (Issuer)] | Assigned |

CRNL has assigned the rating of 'CARE-NP BBB- (Is)' 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 rating assigned to SNLIC derives strength from SNLIC's association with strong promoter group, experienced board & management team, moderate financial risk profile with improving combined ratio during FY21 (Unaudited, refers to the 12 months period ended Mid-July 2021) 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 factors in concentration in endowment policies and impact of Covid-19 in life insurance industry.

Ability of SNLIC 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

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

SNLIC has four 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 15 years including his association with Insurance Board of Nepal. Mr. Aryal holds post graduate degree 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

SNLIC has wide geographical coverage network of 190 branches (including 169 sub-branches) and more than 23,000 insurance agents are associated with the company as of Mid-July 2021. The branches are spread over all 7 Provinces of Nepal and cover 18 districts (out of total 77 districts) of Nepal. SNLIC has been continuously growing its branch network and added 45 branches/sub-branches in FY21. The increase in branches on regular basis provides advantage to business growth in terms of marketing, branding and reaching close to customers.

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

Moderate financial risk profile with improving combined ratio in FY21

During FY21, the company earned gross premium written (GPW) of Rs. 2,161 Mn which increased by 97% over FY20 due to increase in policies issued which was supported by increase in branches and agents. Accordingly, Net premium written (NPW) during FY21 also increased by 78% to Rs. 1,901 Mn. with retention ratio of 87.98%. SNLIC has reported significant growth in Net Underwriting result (albeit low base) of Rs. 922 Mn during FY21 over Rs. 481 Mn during FY20 mainly due to addition of sub-branches and increase in awareness of insurance. SNLIC reported net profit of Rs. 106 Mn during FY21 against net profit of Rs. 79 Mn during FY20.

SNLIC has reported increase in life insurance fund from Rs. 1,256 Mn in FY20 to Rs. 2,392 Mn in FY21. SNLIC's policy continuation rate stood modest at 83.86% till Mid-July 2021.

The loss ratio (claim ratio) of SNLIC stood at 8.02%, commission ratio was 17.42% and expense ratio was 25.04% during FY21 (against the regulatory requirement of maximum 30%). Expense ratio decreased mainly due to increase in business volume which resulted in proportionate decline of fixed cost derived from scale benefits. It was further supported by increase in digitization of policy related aspect and proper monitoring of employee incentive. On back of these, combined ratio improved to 50.48% during FY21 from 54.82% during FY20.

SNLIC has maintained 1.62x solvency ratio during FY19 which is just above minimum required ratio of 1.50x which was 1.12x during FY18.

Adequate reinsurance arrangement with moderate solvency profile

SNLIC has entered into reinsurance tie-ups 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 with fair return on investment

SNLIC had an investment portfolio of around Rs. 4,101 Mn during FY21 which increased by ~52% over FY20. Out of the total investment portfolio of SNLIC, it has invested 78.15% of the total investment as on July 15, 2021, 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. Furthermore, during FY21 company had moderate liquidity position with Liquid Assets to Technical Reserve standing at 1.43x.

With growth in investment portfolio, investment income of SNLIC comprises majorly of interest income from those investments. Further, SNLIC reported investment income of Rs. 291 Mn during FY21 recording a growth of ~25% over FY20. Average yield on investment of SNLIC was 8.54% during FY21.

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

SNLIC started its operations during FY18 and has short track of operations of less than 3 years. Currently, there are 19 life insurance companies operating in Nepal (10 companies are licensed and started operation after FY17 only) sharing total Rs. 121,144 Million of Gross Premium Written (GPW) as on July 15, 2021; where SNLIC shares only 1.78% of total

GPW and ranks 16th Position (out of 19) reflecting low market share in the industry in comparison to the established life insurance players. Being a small player coupled with short track of operations, it remains crucial for the company to achieve the envisaged scale of business in the light of competitive nature of industry

Concentration in Endowment policies

SNLIC's business is focused towards endowment segment and its variation with ~92% of NPW contribution from these policies during FY21 which decreased from ~98% during FY20. However, foreign Employment Term (FET) Policy contributed ~2% during FY20 which increased to ~8% during FY21 due to full digitization of foreign employment term policy. 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 a propensity to save among the insured. To deal with the crisis, SNLIC is focusing on digitalization of payment of premium and documentation related activities through online which also helped SNLIC to decrease in operating expenses and increase its market coverage.

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 has been offering an extensive range of products such as Money Back, Endowment, Whole Life, Term Assurance products etc. through its diversified sales network.

SNLIC's assets base stood at Rs. 4,694 Mn as on July 15, 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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