

IME Life Insurance Company Limited

Ratings

Facilities	Amount (Rs. Million)	Rating	Rating Action
Issuer Rating	NA	CARE-NP BBB (Is)	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BBB (Is)' assigned 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 reaffirmation in ratings assigned to ILIC takes into an account its strong promoter group, experienced directors and management team, moderate financial risk profile, albeit with slightly increased combined ratio (sum of loss, commission and expense ratio) in FY21 (Unaudited, refers to the twelve-month period ended mid-July 2021) 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 geographical coverage through adequate branch network.

The rating, however, continues to be constrained by ILIC's short track record of its operations and presence in a highly competitive industry coupled with a modest market share in the life insurance industry and modest solvency ratio.

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

Associated with strong promoter group

ILIC is promoted by IME Group with total holdings of 51.61% as on mid-April 2022. IME Group is an established group in Nepal with cross-sector presence in banking, remittance, hydropower, hospitality among others. 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. Other major shareholders include Global IME Bank Limited (14.29%).

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 operation 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 and sub-branches

ILIC has wide geographical coverage through its 76 branches as on June 01, 2022 along with 64 sub-branches. The branches are spread over all 7 Provinces of Nepal covering 71 districts out of 77 districts of Nepal. Also, it has around 27,000 insurance agents as of June 01, 2022 all over Nepal. ILIC has been continuously growing its branch network by adding new branches; it added 30 branches in FY21 and 6 branches in 9MFY22 (Unaudited, refers to the nine-month period ended mid-April 2022).

Moderate financial risk profile supported by growing scale, however, with slight moderation in combined ratio in FY21

During FY21 (FY refers to the twelve-month period ended mid-July), the company's gross premium written (GPW) increased by 99.54% to Rs. 2,822 Mn from 1,414 during FY20 aided by expansion of branches and increase in number of insurance agents coupled with increasing insurance awareness in the country, particularly amid the covid-19 pandemic. The growth of the GPW is higher as compared to the overall industry growth over 27% in terms of gross premium in FY21 on account of lower base of the company. Similarly, Net premium written (NPW) increased to Rs. 2,735 Mn with retention ratio of 96.93% during FY21 from Rs. 1,370 in FY20 with retention ratio of 96.89%. Further, NPW increased to Rs. 2,379 Mn (Rs. 1,851 Mn during 9MFY21) during 9MFY22.

ILIC's Net Underwriting result increased to Rs. 1,156 Mn during FY21 over Rs. 578 Mn during FY20 on account of improved business operations. Further, the company reported underwriting result of Rs. 969 Mn (Rs. 886 Mn during 9MFY21) during 9MFY22. ILIC's life fund also increased to Rs. 2,972 Mn at the end of FY21 (yet to be finalized pending actuary valuation report) from Rs. 1,463 Mn at the end of FY20 in order to meet the future liability and support the policyholder return. Consequently, ILIC reported net profit of Rs. 223 Mn during FY21 and Rs. 102 Mn during 9MFY22. Insurer shall also allocate minimum 10% of PAT towards catastrophe reserve as per regulatory requirement prescribed by Insurance Board. Catastrophe reserve of ILIC stands at Rs. 66.33 Mn as on mid-July 2021. Also, ILIC's policy continuation rate remains moderate at 83.50% till Mid-April 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.

The loss ratio (claim ratio) of ILIC was at 16.95% during FY21 from 8.18% in FY20, on account of increase in partial maturity claims as the company focus shifted to money back policy during FY21 coupled with higher death claims on settlement of foreign employment policies. However, commission ratio decreased marginally to 18.66% during FY21 from 18.73% in FY20. Also, Expense Ratio decreased to 22.84 % during FY21 from 30.54% in FY20 (against the regulatory requirement of maximum 30%) mainly on account of economies of scale and rationalization of fixed cost expenses. Combined ratio thus deteriorated to 58.44 % during FY21 from 57.45% during FY20.

Adequate reinsurance arrangement

ILIC has entered into reinsurance treaties with Nepal Reinsurance Company Limited where it cedes claim amount of more than Rs. 0.4 Mn per life and Barents Re Reinsurance Company for catastrophic reinsurance where it cedes claim amount of more than Rs. 20 Mn

Good assets quality of investment book

ILIC had an investment portfolio of around Rs. 4,210 Mn at the end of FY21 which increased from Rs. 2,922 Mn in FY20 recording a growth of 44%. Further, investment portfolio increased to Rs. 5,290 Mn at the end of 9MFY22 recording a growth of 26% over FY21. Out of total investment portfolio, ~77%-79% of investment in fixed deposit of different BFIs during FY21 and 9MFY22. As majority of investments of ILIC are in the form of deposits at different BFIs, investment income of ILIC comprises of interest income. Investment income has increased by 30% during FY21 to Rs. 349 Mn mainly due to increase in investment portfolio during FY21. Further, ILIC reported investment income of Rs. 364 Mn during 9MFY22. Average yield on Investment of ILIC was 9.80% in FY21 (FY20:10.59%) mainly due to decrease in interest rate of fixed deposit of different BFIs in FY21.

Majority of ILIC's investments are readily marketable in nature which lends sufficient liquidity cushion to the company. Further, during FY21 company had moderate liquidity position with Liquid Assets to Technical Reserve standing at 1.46x.

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 first full year of operation only during FY19. Currently, there are 19 life insurance companies operating in Nepal (10 new companies were licensed and started operation after FY17), where ILIC shared around 2.37% of total GPW in 9MFY22 and ranked 13th (out of 19 licensed life insurance companies) reflecting modest market share in the industry. However, ILIC stood in 5th position (out of 10 new companies licensed and started operation after FY17). Further, due to a relatively high number of life insurance companies present in Nepal, ILIC is expected to face high competition to tap new customers leading to a challenging market dynamic to increase material market share.

Modest solvency ratio in FY20, likely improvement in FY21

ILIC has maintained 1.51x (FY19: 1.60x) solvency ratio during FY20, with limited cushion from the minimum regulatory required ratio of 1.50x. Although asset base of company increased in FY20 amid improved business operations, solvency ratio declined on account of increased bonus liability provision in FY20. Solvency ratio for FY21 is not yet finalized by actuary but sequential improvement over FY20 is likely backed by growing operations. With the increased capital (after proposed IPO issue) and accretion of profits, ILIC's assets base will likely to increase along with increase in business volume, which ultimately is expected to further improve solvency ratio of the company to certain extent.

Exposure to Regulatory Risk

The Insurance Board has insurance specified regulatory requirement for all life companies to make complete provision of the vested bonus as well as future bonus liabilities by FY25, against which ILIC has made provision for all the vested bonus and 56% of future bonuses as on mid-July 2020. 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. ILIC is likely to meet this requirement through public issuances.

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 had an asset base of Rs. 5,281 Mn as on July 15, 2021. The capital structure of the company comprises of an authorized capital of Rs. 2 Bn out of which Rs. 1.40 Bn is paid up capital from the promoter groups

Brief financial performance of IME Life Insurance Company Limited (ILIC) during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (UA)
Total Gross Premium	919	1,414	2,822
Net Premium Earned	831	1,358	2,781
Income from Investment	193	268	349
Profit before Tax (PBT)	49	106	37
Profit after Tax (PAT)	113	199	223
Investments	2,146	2,922	4,210
Investment yield (%)	10.45	10.59	9.8
Return on Total Assets (%)	5.04	6.49	5.07
Solvency ratio (times)	1.6	1.51	-

A: Audited; UA: Unaudited

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