

## Jyoti Life Insurance Company Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BBB (Is)</b>	Reaffirmed and placed on credit watch with developing implications

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BBB (Is)' assigned to Jyoti Life Insurance Company Limited (JLIC) and placed it on "credit watch with developing implications". Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Nepal.

The above ratings have been placed on "credit watch with developing implications" following the announcement of merger of JLIC with Surya Life Insurance Company Limited. CRNL will resolve the rating watch once clarity emerges on the merged entity's business and financial profile post-merger completion. CRNL will take a view on the rating once the exact implications of the above on the business prospect and credit risk profile of the company are clear.

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to JLIC takes into an account its experienced board and management team, moderate financial risk profile with improving combined ratio (sum of loss, commission and expense ratio) 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 and improving trend in solvency ratio.

The rating, however, continues to be constrained by JLIC's short track record of operations and presence in a highly competitive industry coupled with a modest market share in the life insurance industry. The rating also factors in exposure to regulatory risk pertaining to the life-insurance industry in Nepal.

*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

##### Experienced board and management team

JLIC has seven board members led by Mr. Nanda Kishore Sharma. Mr. Sharma has been associated with the company since 2018 and has an overall experience of over a decade in banking, financial services and insurance sector at 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. Mr. Khatri 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 and sub-branches

JLIC has wide geographical coverage network of 75 branches (including head office) as on May 25, 2022 along with 54 sub-branches. The branches are spread over all 7 Provinces of Nepal. JLIC has been continuously growing its branch network by adding new branches; it added 5 branches and converted 6 sub-branches to branch in FY21 (Unaudited, refers to the twelve-month period ended mid-July 2021).

**Moderate financial risk profile with improving combined ratio**

During FY21, the company's gross premium written (GPW) increased by 66% to Rs. 3,142 Mn from 1,889 during FY20 (Audited; refers to the twelve-month period ended mid-July 2020) supported by branches expansion during FY20 and FY21 coupled with increasing insurance awareness in the country, particularly amid the covid-19 pandemic. The growth in GPW is higher than the 27% growth in GWP of the overall industry in FY21 on account of lower base of the company. Similarly, net premium written (NPW) increased to Rs. 3,020 Mn with retention ratio of 96.14% during FY21 from Rs. 1,811 in FY20 with retention ratio of 95.87%. Further, NPW increased to Rs. 2,464 Mn during 9MFY22 (Unaudited, refers to the nine-month period ended mid-April 2022).

JLIC's Net Underwriting result increased to Rs. 1,701 Mn during FY21 over Rs. 989 Mn during FY20 aided by improved business operations. Furthermore, company reported underwriting result of Rs. 1,434 Mn during 9MFY22. However, JLIC's life fund also increased to Rs. 3,898 Mn at the end of FY21 from Rs. 1,899 Mn at the end of FY20 in order to meet the future liability and support the policyholder return. Consequently, JLIC reported net profit of Rs. 294 Mn during FY21 and Rs. 206 Mn during 9MFY22 on account of increase in underwriting result and investment income due to increased investment portfolio. Insurer shall also allocate minimum 10% of PAT towards catastrophe reserve as per regulatory requirement prescribed by Insurance Board. Thus, Catastrophe reserve of JLIC stood at Rs. 88.71 Mn as on Mid – April 2022 which increased from Rs. 85.31 Mn. as on mid-July 2021. JLIC's policy continuation rate remains moderate at 86% 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 JLIC was low at 3.10% during FY21, albeit increased from 0.87% in FY20, backed by increase in death claims and surrenders claims. Further, loss ratio increased to 8.14% in 9MFY22 mainly on account of settlement of partial maturity claims in money back policy and increased death claims. However, commission ratio decreased to 15.38% during FY21 from 15.51% in FY20, which further decreased to 14.60% in 9MFY22. Also, Expense Ratio decreased to 24.45 % during FY21 from 28.05% in FY20 (against the regulatory requirement of maximum 30%) mainly on account of economies of scale and rationalization of fixed cost expenses. Expense ratio further decreased to 18.81% in 9MFY22. Combined ratio thus improved to 43.07% during FY21 and 41.55% during 9MFY22 from 45.46% during FY20.

**Adequate reinsurance arrangement**

JLIC has entered into 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. 0.5 Mn in-terms of individual life policies and balance after retaining maximum of Rs. 0.3 Mn lakh or 50% of sum assured by JLIC in-terms of group term life policies.

**Good assets quality of investment book**

JLIC had an investment portfolio of around Rs. 5,825 Mn at the end of FY21 which increased from Rs. 3,354 Mn in FY20 recording a growth of 74%. Further, investment portfolio increased to Rs. 8,010 Mn at the end of 9MFY22 recording a growth of 38% over FY21. Out of total investment portfolio, around 74% is invested in fixed deposit of different BFIs during FY21 and 9MFY22. As majority of investments of JLIC are in the form of deposits at different BFIs, investment income of JLIC comprises of interest income. Investment income has increased by 51% during FY21 to Rs. 448 Mn mainly due to increase in investment portfolio during FY21. Further, JLIC reported investment income of Rs. 508 Mn during 9MFY22. Average yield on Investment of JLIC was 9.78% in FY21 (FY20:10.37%) mainly due to decrease in interest rate of fixed deposit of different BFIs in FY21.

Majority of JLIC'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.

### Improving trend in solvency ratio

JLIC's solvency ratio stood at 3.06x during FY21 as compared to 2.10x during FY20 against the minimum requirement of 1.50x. The improvement in Solvency ratio for FY21 is backed by increase in asset base of the company due to growing operations coupled with increased capital after IPO issue in FY21.

### 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 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 (10 companies were licensed and started operation after FY17 only), where JLIC shared around 2.55% of total GPW in 9MFY22 and ranked 12<sup>th</sup> position (out of 19 licensed insurance companies) reflecting low market share in the industry. However, JLIC stands in 4<sup>th</sup> position (out of 10 companies licensed and started operation after FY17 only). Further, due to a relatively high number of life insurance companies present in Nepal, JLIC is expected to face high competition to tap new customers leading to a challenging market dynamic to increase material market share.

### Exposure to Regulatory Risk

The Insurance Board has specified regulatory requirement for all life insurance companies to make complete provision of the vested as well as future bonus liabilities by FY25. Against this JLIC has made provision for all the vested bonus and 35% 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. JLIC has signed Memorandum of Understanding (MOU) with Surya Life Insurance Company Limited (SLICL) as on June 26, 2022. The 318<sup>th</sup> and 109<sup>th</sup> board meetings of SLICL and JLIC respectively, have passed the agenda for the merger between the two companies. The combined paid up capital of merged company will be Rs. 4.97 Bn post-merger.

### 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 and has obtained license from Insurance Board on September 4, 2017. JLIC had an asset base of Rs. 9,429.33 Mn as on April 13, 2022. The capital structure of the company comprises of a paid-up capital of Rs. 2,420 Mn (70% promoter shares and 30% public shares) as on mid- April 2022.

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

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (UA)
Total Gross Premium	1,018	1,889	3,142
Net Premium Earned	986	1,811	3,020
Income from Investment	231	296	448
Profit before Tax (PBT)	101	117	122
Profit after Tax (PAT)	182	237	294
Investments	2,371	3,354	5,825
Investment yield (%)	11.24	10.37	9.78
Return on Total Assets (%)	7.99	6.97	5.23
Solvency ratio (times)	1.83	2.1	3.06

A: Audited; UA: Unaudited

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