

Reliable Nepal Life Insurance 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 Reliable Nepal Life Insurance Limited (RNL). 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 RNL takes into an account its experienced board and management team, moderate financial risk profile backed by increasing scale of operations, 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). 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 also takes cognizance of the improving trend in solvency ratio over FY19-FY21 (FY ending mid-July).

The rating, however, continues to be constrained by RNL'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. The rating also factors in moderate policy continuity rate and exposure to regulatory risk.

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

RNL has seven members on its board chaired by Mr. Udaya Nepali Shrestha. Mr. Shrestha has more than 15 years of experience in different sectors including financial services. Mr. Indra Prasad Sharma, Director, has 13 years of experience in various sectors. The company's management team comprises of seasoned professionals having diversified experience including finance, banking, and 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 is supported by other experienced management team members.

Adequate geographical coverage through branches

RNL has wide geographical coverage through its 9 branches (including Head Office) and 69 sub-branches as on June 10, 2022. The branches are spread over all 7 Provinces of Nepal. RNL has been continuously growing its branch network by adding new branches. 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 supported by growing scale, however, with slight moderation in combined ratio in FY21

During FY21, the company's gross premium written (GPW) increased by 89.43% to Rs. 3,072 Mn from Rs. 1,622 Mn during FY20 (Unaudited, refers to the nine-month period ended mid-April 2022), on account of 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. 2,888 Mn with retention ratio of 94.01% during FY21 from Rs. 1,533 Mn in FY20 with retention ratio of 94.53%. Further, NPW increased to Rs. 2,833 Mn during 9MFY22 (Audited, refers to the twelve-month period ended mid-July 2020) (Rs. 2,277 Mn during 9MFY21) with the retention ratio of 94.74%.

RNL's Net Underwriting result increased to Rs. 1,330 Mn during FY21 over Rs. 696 Mn during FY20, which further increased to Rs. 1,423 Mn during 9MFY22 backed by growing scale of operations. However, RNL's life fund also increased to Rs. 2,876 Mn at the end of FY21 (yet to be finalized as per the actuary valuation report) from Rs. 1,498 Mn at the end of FY20 in order to meet the future liability and support the policyholder return. Consequently, RNL reported net profit of Rs. 371 Mn during FY21 and Rs. 236 Mn during 9MFY22. Insurer shall also allocate minimum 10% of PAT towards catastrophe reserve as per regulatory requirement prescribed by Insurance Board. Thus, Catastrophe reserve of RNL stands at Rs. 131 Mn as on mid-July 2021.

The loss ratio (claim ratio) of RNL increased significantly to 16.75% during FY21 from 11.32 % in FY20, mainly due to higher claim settlement of term policy and foreign employment policy in FY21. Further, commission ratio increased marginally to 15.35% during FY21 from 15.12% in FY20. However, Expense Ratio decreased to 20.28 % during FY21 from 25.23 % in FY20 (against the regulatory requirement of 30%) mainly on account of economies of scale along with rationalization of fixed cost expenses. Combined ratio thus deteriorated to 52.38 % during FY21 from 51.67 % during FY20.

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. Also, RNL has entered into an agreement with Hannover Reuck SE on the surplus basis with the retention limit of Rs. 0.5 Mn.

Good assets quality of investment book

RNL had an investment portfolio of around Rs. 5,250.98 Mn at the end of FY21 which increased from Rs. 3,622 Mn in FY20 recording a growth of 45%. Further, investment portfolio increased to Rs. 6,641 Mn at the end of 9MFY22 recording a growth of 26% over FY21. Out of total investment, ~74%-75% of investment is in fixed deposit of different BFIs during FY21 and 9MFY22. As majority of investments of RNL are in the form of deposits at different BFIs, investment income of RNL comprises of interest income. Investment income has increased by 38% during FY21 to Rs. 455 Mn mainly due to increase in investment portfolio during FY21. Further, RNL reported investment income of Rs. 403 Mn during 9MFY22. Average yield on Investment of RNL was 10.16% in FY21 (FY20:10.47%).

Majority of RNL'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 1.57x (FY20: 1.86x).

Improving trend in solvency ratio

RNL's solvency ratio stood at 1.85x during FY21 (2.20x without including cost of bonus) as compared to 1.65x during FY20 (1.86x without including cost of bonus) against the minimum requirement of 1.50x. The solvency ratio improved during FY21 on account of increased asset base of the company supported by improved business operations. With the increased capital (after proposed IPO issue) and accretion of profits, RNL's assets bases likely increase along with increase in business volume, which ultimately is expected to further improve solvency ratio of the company to certain extent.

Key Rating Weakness

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

RNL started its operation during FY18 and had its first full year of operation only during FY19. Currently, there are 19 life insurance companies operating in Nepal (10 companies are licensed and started operation after FY17 only) where RNL shared around 2.89% of total GPW in 9MFY22 and ranked 11th Position (out of 19 licensed life insurance companies) reflecting modest

market share in the industry. However, RNL stands in 3rd 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, RNL is expected to face high competition to tap new customers leading to a challenging market dynamic to increase material market share.

Moderate policy continuity rate

Overall lapse ratio of the company has been on increasing trend over FY19-FY21. Lapse ratio increased to 29.69% in FY21 from 21.81% in FY20 (FY19:10.77%), resulting in policy continuity rate of slightly below par 70% as on mid-July 2021. 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.

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 RNL has made provision for all the vested bonus and Rs. 348 Mn of future bonuses as on mid-July 2021. 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. RNL is likely to meet this requirement through public issuances.

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 has been offering an extensive range of products as Endowment, Whole Life, Term Assurance products etc. through its diversified sales network. RNL has network of 9 branches (including head office), 69 sub branches and 23,410 insurance agents as of June 10, 2022. RNL had an asset base of Rs. 8,141 Million as of Mid-April 2022. 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 group and the remaining is proposed to be issued to the public through IPO.

Brief financial performance of Reliable Nepal Life Insurance Limited (RNL) during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (UA)
Total Gross Premium	1,370.93	1,621.91	3,072.37
Net Premium Earned	998.29	1,439.15	2,793.71
Income from Investment	230.79	330.47	455.44
Profit before Tax (PBT)	54.28	234.84	370.04
Profit after Tax (PAT)	54.95	236.08	371.04
Investments	2,664.41	3,621.52	5,250.98
Investment yield (%)	10.94	10.47	10.16
Return on Total Assets (%)	2.29	6.76	7.39
Solvency ratio (times)	1.37	1.65	1.85

A: Audited; UA: Unaudited

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