

## Sanima 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>	<b>Reaffirmed</b>

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BBB (Is)' assigned to Sanima Life Insurance Company Limited (SLI). 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 of the rating assigned to SLI takes into an account its strong promoter group, experienced board and management team, moderate financial risk profile with improving combined ratio (sum of loss, commission and expense ratio), and moderate policy continuation rate. Furthermore, the rating also derives strength from good asset quality of investment book and adequate reinsurance arrangement along with growing geographical coverage through increasing branch network.

The rating, however, continues to be constrained by SLI's short track record of operations with modest market share in a highly competitive industry landscape. The rating also factors in modest solvency profile in FY20 (Audited, refers to the twelve-month period ended mid-July 2020), 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

##### Strong promoter group including institutional promoter

SLI is promoted by one institutional promoter (Sanima Bank Limited) and remaining by individual promoters from different background. As on April 13, 2022, 70% of SLI's shares are held by promoter group. The promoter group shares of the company are mostly owned by individuals belonging to Sanima Group. Sanima Group in Nepal is managed by prominent non-resident Nepalese residing in different parts of globe. The Group business expands across sectors like finance, banking, hydropower, education and tourism.

##### Experienced board and management team

SLI has five experienced members on its board led by Mr. Kumar Koirala. Mr. Koirala has overall experience of around 3 decades with two and half decades in Government of Nepal at senior position. He was also associated as advisory for United Nation in Bangladesh, Austria and Ukraine. Currently he is also associated with United Nations as Senior Adviser. The day-to-day operations of the company are headed by Mr. Agam Mukhia, CEO, who has overall experience of more than 2 decades in financial sector. He had also served as deputy chief executive officer in another Life Insurance Company. Similarly, Mr. Mukhia had spent more than 10 years in another Life Insurance Company. He is assisted by an experienced team across various functions.

##### Adequate geographical coverage through branches

SLI has wide geographical coverage through its 118 branches and sub-branches (including Head Office) as on mid-June, 2022. The branches are spread over all 7 Provinces and cover 53 districts (out of 77 districts) of Nepal. Bagmati Province covers 45% share in terms of total Gross premium Written (GPW) during FY21. SLI 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.

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

During FY21 (Unaudited, refers to the twelve-month period ended mid-July 2021), the company's gross premium written (GPW) increased by 134% to Rs. 1,982 Mn from Rs. 844 Mn during FY20 on account of increasing presence of the company through addition of new branches and insurance agents amid increasing insurance awareness in the country, particularly amid the covid-19 pandemic coupled with a low base in FY20 (overall industry growth was 27% in FY21). Similarly, Net Premium Written (NPW) increased to Rs. 1,957 Mn with retention ratio of 98.71% during FY21 from Rs. 832 Mn in FY20 with retention ratio of 98.59%. Further, NPW increased to Rs. 1,743 Mn during 9MFY22 (Rs. 1,449 Mn during 9MFY21) with the retention ratio of 97.95%.

With the increasing scale, SLI's net underwriting result increased to Rs. 1,068 Mn during FY21 over Rs. 384 Mn during FY20. However, underwriting result slightly moderated to Rs. 904 Mn (Rs. 930 Mn during 9MFY21) during 9MFY22 amid increasing claims. SLI's life fund also increased to Rs. 2,167 Mn at the end of FY21 (yet to be finalized pending actuary valuation report) from Rs. 909 Mn at the end of FY20 in order to meet the future liability and support the policyholder return. Consequently, SLI reported net profit of Rs. 8 Mn during FY21 (Rs. 62 Mn Profit before tax in FY21) as compared to net profit of Rs. 122 Mn during FY20 (Rs. 78 Mn Profit before tax in FY20), backed by adjustments in deferred tax of Rs. 54 Mn in FY21. SLI reported net profit of Rs. 215 Mn during 9MFY22 backed by growing scale of operations. Insurer shall also allocate minimum 10% of PAT towards catastrophe reserve as per regulatory requirement prescribed by Insurance Board. Thus, Catastrophe reserve of SLI which stood at Rs. 21 Mn as on mid-July 2021 increased to Rs. 39 Mn as on mid-April 2022. SLI's policy continuation rate is at 86% till mid-July 2021, 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 SLI was low at 5.46% during FY21, albeit increased from 0.94% in FY20, backed by increase in death claims and partial maturity claims on money back policies. However, loss ratio increased to 14.95% in 9MFY22 amid increased claims. However, commission ratio decreased to 17.70% during FY21 from 18.75% in FY20, which further decreased to 16.50% in 9MFY22. Also, Expense Ratio decreased to 22.05 % during FY21 from 33.97% in FY20 (against the regulatory requirement of maximum 30%) mainly on account of economies of scale of operation and rationalization of fixed cost expenses. Expense ratio further decreased to 16.63% in 9MFY22. Combined ratio thus improved to 45.20% during FY21 from 53.36% during FY20. However, combined ratio increased to 48.09% in 9MFY22 mainly due to increase in loss (claims) ratio.

**Adequate reinsurance arrangement**

SLI has entered into reinsurance treaties with Nepal Reinsurance Company Limited where it cedes 20% of Sum Assured under each benefit of each policy. Also, SLI has entered into an agreement with Arch Reinsurance Europe for catastrophic reinsurance where it cedes claim amount of more than Rs. 0.5 Mn in Individual, Term Life Insurance and Accidental Riders, 40% of sum assured in Micro- Insurance and 20% of sum assured in Expat policies.

**Good assets quality of investment book**

SLI had an investment portfolio of around Rs. 3,337 Mn at the end of FY21 which increased from Rs. 2,292 Mn in FY20 recording a growth of 46%. Further, investment portfolio increased to Rs. 4,913 Mn at the end of 9MFY22 recording a growth of 47% over FY21. Out of total investment, ~72% of investment is in fixed deposit and interest-bearing deposits of different BFIs during FY21 and 9MFY22. As majority of investments of SLI are in the form of deposits at different BFIs, investment income of SLI comprises of interest income. Investment income has increased by 33% during FY21 to Rs. 248 Mn mainly due to increase in investment portfolio during FY21. Further, SLL reported investment income of Rs. 274 Mn during 9MFY22. Average yield on Investment of SLI was 8.77% in FY21 (FY20:9.21%), mainly due to decrease in interest rate of fixed deposit of different BFIs in FY21.

### Key Rating Weakness

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

SLI has been providing its service in life insurance sector since December 8, 2017 and had its first full year of operation only during FY19. Currently, there are 19 life insurance companies operating in Nepal (10 companies were licensed and started operation after FY17) where SLI shared around 1.72% of total GPW in 9MFY22 and ranked 17<sup>th</sup> Position (out of 19 licensed life insurance companies) reflecting modest market share in the industry. Also, SLI stands in 8<sup>th</sup> position (out of 10 companies licensed and started operation after FY17 only). Furthermore, due to a relatively high number of life insurance companies present in Nepal, SLI is expected to face high competition to tap new customers leading to a challenging market dynamic to increase material market share.

#### Modest solvency ratio

SLI's solvency ratio stood at 1.42x during FY20 (1.54x without including cost of bonus) as compared to 1.36x during FY19 (1.44x without including cost of bonus) against the minimum requirement of 1.50x. The solvency ratio improved during FY20 on account of increased asset base of the company supported by improved business operations. 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 IPO issue during 9MFY22) and accretion of profits, SLI's assets base is expected to increase along with increase in business volume, which ultimately is expected to help improve solvency ratio of the company to certain extent. Maintaining solvency above the regulatory requirement will remain a key monitorable aspect.

#### 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 this, SLI has made provisions for all the vested bonus and Rs. 117.64 Mn for 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. Merger could be a viable option for the company to meet the minimum paid-up capital requirement.

#### About the Company

Sanima Life Insurance Company Limited (SLI) is a life insurance company registered at Office of Company Registrar under the Company Act 2006 on November 29, 2007 and has obtained license from Insurance Board on August 23, 2017 and is promoted by Non-Resident Nepalese (NRNs). The capital structure of the company comprises of paid up capital of Rs. 2 Bn as on mid-April 2022 out of which Rs. 1.40 Bn is paid up capital from the promoter group and the remaining has been raised from public through IPO.

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

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (UA)
Total Gross Premium	444	844	1,982
Net Premium Earned	400	823	1,949
Income from Investment	171	186	248
Profit before tax (PBT)	60	78	62
Profit after Tax (PAT)	61	122	8
Investments	2,292	3,337	4,913
Investment yield (%)	11.07	9.21	8.77
Return on Total Assets (%)	3.50	5.38	0.23
Solvency ratio (times)	1.36	1.44	NA

A: Audited; UA: Unaudited

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