

Sun Nepal Life Insurance Company Limited

Ratings

Facilities	Amount (Rs. Million)	Rating	Rating Action
Issuer Rating	NA	CARE-NP BBB (Is) [Triple B (Issuer)]	Revised from CARE-NP BBB- (Is)

CARE Ratings Nepal Limited (CRNL) has revised the issuer rating assigned to Sun Nepal Life Insurance Company Limited (SNLIC) to 'CARE-NP BBB (Is)' from 'CARE-NP BBB- (Is)'. Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

Detailed Rationale & Key Rating Drivers

The revision in issuer rating of SNLIC takes into account the improved financial performance of the company in FY23 (Unaudited, FY refers to the twelve-month period ending mid-July) marked by sustained growth in scale of operations buoyed particularly by single premium collection in Foreign Employment Term (FET) policies coupled with improvement in net profit post transfer to policyholder's fund owing to increase in both underwriting performance as well as investment income. The rating also factors in the improved solvency profile of the company at the end of FY22 (Audited), with comfortable cushion from regulatory requirement levels. Furthermore, the rating takes cognizance of successful completion of Initial Public Offering (IPO) in September 2023, resulting into increased tangible net worth base of the company. Additionally, the rating continues to derive strength from SNLIC's experienced board and management team, 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 SNLIC's relatively 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 deterioration in policy continuity rate as on mid-July 2023 owing to increase in lapsed policies 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, its ability to maintain minimum capital and regulatory solvency ratio at all times will also be key rating sensitivities. The company's ability to obtain necessary approvals from Insurance Board for extension of timelines regarding maintenance of minimum capital requirement will remain 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 five 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 16 years including his association with Insurance Board of Nepal. Mr. Aryal holds Master 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.

Increased tangible net worth post public issuances

SNLIC issued 60% right amounting to Rs. 840 Mn during FY23. Furthermore, SNLIC also successfully completed Initial Public Offer (IPO) with total proceeds of Rs. 2.22 Bn (including premium) as on September end, 2023. The paid-up capital of the company stood at Rs. 3.2 Bn as on September end, 2023. SNLIC's tangible net worth of the company increased to Rs. 5.5 Bn during September end, 2023 (Rs. 3.27 Bn as on July 16, 2023) post completion of public issuances. This has also led to a

significant increase in the investment base of the company. The timing of issuance has been prudent as most of the proceeds are locked in Fixed Deposits (FD) of longer tenure at relatively higher interest rates amid stressed liquidity in the banking sector, which is likely to benefit SNLIC's investment yield going forward.

Successful commencement of public issuances has resulted into significant increased asset base of the company. With the increased assets base coupled with increased business volume, it is likely to improve solvency ratio of the company during FY23. The solvency reflects the availability of capital relative to the quantum of risk underwritten to absorb any unforeseen losses and capacity to underwrite new business. Hence, an increasing trend in solvency risk bodes well from credit perspective.

Improving solvency profile

SNLIC's solvency ratio including cost of bonus improved and stood at 2.05x during FY22 (2.52x excluding cost of bonus) as compared to 2.09x during FY21 (1.71x excluding cost of bonus) against the minimum requirement of 1.50x. The solvency ratio improved during FY22 on account of increased asset base of the company with the improved business operations. The increased asset base is mainly attributable to increase in the investments of the company, returns of the investments and ploughing back those returns. The ratio is calculated as per the regulatory directive considering regulatory capital requirement of Rs. 2 Bn.

Marked improvement in financial performance in FY23

There has been sustained growth in SNLIC's scale of operations over the past few years. During FY23, the company's gross premium written (GPW) increased by 39% year-on-year (industry growth: 2.68%) to Rs. 3,752 Mn. The growth in GPW is mainly driven by increase in single premium collections in Foreign Employment Term (FET) policies. FET policies which were previously part of pool has been independently handled by life insurance companies from FY23 onwards, which has resulted in 191% y-o-y growth in single premium collections of SNLIC to Rs. 1,195 Mn during FY23 (FY22: Rs. 410 Mn). SNLIC held substantial share i.e., 30% market share in terms of single premium collections of FET policies during FY23. Although first year premium collection moderated during FY23, renewal premiums increased to Rs. 2,000 Mn (FY22: Rs. 1,469 Mn). Increased gross Premium collections coupled with controlled management expenses as reflected by decrease in expense ratio to 18.45% in FY23 from 24.98% in FY22 led to increase in Net Underwriting result by 55% y-o-y to Rs. 1,382 Mn during FY23. SNLIC's net profit post transfer to policyholder fund increased to Rs. 567 Mn during FY23 (FY22: Rs. 220 Mn) supported by improvement in net underwriting coupled with increase in income from investments. Return on Total Assets (ROTA) of the company increased to 7.12% in FY23 from 3.80% in FY22.

Adequate geographical coverage through branches and sub-branches

SNLIC has wide geographical coverage through its 29 branches (including Head Office) and 112 sub-branches as on Mid- July, 2023. The company is still in the process of reorganizing its subbranches to increase the number of full-fledged branches, which is likely to benefit the company's market presence in these locations and rationalize its management expense. The branches are spread over all 7 Provinces of Nepal. Also, it has 34,180 insurance agents as of mid-April, 2023 all over Nepal. Adequate no. of branches provides advantage to business growth in terms of marketing, branding and reaching close to customers.

Adequate reinsurance arrangement

SNLIC has entered into reinsurance treaties as mandated with Nepal Reinsurance Company Limited (NRIC) and Himalayan Reinsurance Limited (HRL) where it cedes 10% of Sum Assured under each benefit of each policy (individual life policies and group term life policies) to each reinsurance companies in case of conventional policies. Furthermore, it has entered into facultative reinsurance treaty with NRIC where it cedes (out of remaining 80% of sum insured) claim amount of more than Rs. 2 lakh in-terms of individual life policies. For FET policies, SNLIC has entered into reinsurance treaties with NRIC and HRL where it cedes 40% and 20% of Sum Assured respectively.

Policyholder liabilities of life insurers are impacted by their high sensitivity (due to long tenure) to changes in the mortality rates, medical inflation rates and interest rate movements. Thus, maintaining adequate reserves is critical to meet the liability related to future claims, any unforeseen claim payouts and support the policyholder return, resulting into moderate shareholder's return post-transfer. During FY23, SNLIC has transferred Rs. 1,521 Mn to life insurance fund thus life insurance fund increased to Rs. 5,032 Mn at the end of FY23. Also, as per Insurance Board, insurer shall allocate minimum 10% of PAT towards catastrophe reserve. As on FY23, catastrophe reserve of SNLIC stood at Rs. 103 Mn (FY22: Rs. 47 Mn).

Good assets quality of investment book

SNLIC had an investment portfolio (including investment in subsidiary company and interest-bearing call account) of around Rs. 7,954 Mn during FY23 which increased by ~32% over FY22. Out of the total investment portfolio of SNLIC, it has invested 73% of the total investment as on July 16, 2023, 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. Further, during FY23 company had moderate liquidity position with Liquid Assets to Technical Reserve standing at 1.44x.

With growth in investment portfolio, investment income of SNLIC comprises majorly of interest income from those investments. Further, SNLIC reported investment income (including interest income in interest bearing call account) of Rs. 567 Mn during FY23 recording a growth of ~38% over FY22. Average yield on investment of SNLIC (FD's and interest-bearing call account) was 10.73% during FY23 (FY22: 10.25%) backed by high interest rates on fixed deposit during FY22 and FY23.

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 a relatively short track record of operations as compared with other established players. As on July end, 2023, there are 14 life insurance companies operating in Nepal, where SNLIC shared around 2.70% of total GPW in FY23 and ranked 12th position reflecting low market share in the industry. Further, due to a relatively high number of life insurance companies present in Nepal, SNLIC is expected to face high competition to tap new customers leading to a challenging market dynamic to increase material market share. Also, large scale increases the insurer's capacity to absorb any abrupt high-claim pay-outs caused by any external shocks, compared to relatively smaller peers.

Moderate policy continuity rate

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. However, policy continuity rate decreased to 65% as on mid-July 2023 from 88% as on mid-July 2022 with increase in no. of cancelled and lapsed insurance policies.

Exposure to Regulatory Risk

The insurance industry is regulated by Insurance Board. Being a highly regulated industry, the government's rules for the insurance industry play a key role in the company's performance besides the demand and supply trend. Furthermore, the industry dynamics like the demand for products, per capita income levels, competitive pressure, interest rate dynamics, and investment opportunities in the industry determine the business and financial profile of insurers in the industry. Overall insurance penetration (percentage of population covered by insurance excluding term, micro term and Foreign Employment Term Policies (FET)) was 15.72% as on mid- September, 2023, thus reflecting low insurance reach in Nepal and high growth potential in upcoming years. Also, The Insurance Board has mandated all life insurance companies to maintain minimum paid-up capital of Rs. 5 Bn by mid-July 2023.

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's assets base stood at Rs. 9.09 Bn as on July 16, 2023.

Brief financial performance of Sun Nepal Life Insurance Company Limited (SNLIC) during last 3 years is given below:

(Rs. In Million)

Particulars	FY21(A)	FY22 (A)	FY23 (UA)
Total Gross Premium	1,888	2,705	3,752
Net Premium Earned	1,772	2,329	3,240
Income from Investment	285	411	567
Profit before Tax (PBT)	95	216	567
Profit after Tax (PAT)	96	220	567
Investments*	4,100	6,016	7,954
Return on Total Assets (%)	2.43	3.80	7.12
Solvency ratio (including COB) (times)	1.71	2.05	-#

*Includes investment in FD's, equity instruments, bonds, interest bearing call account and subsidiary

Solvency ratio for FY23 is yet to be valued from actuary and approve from Insurance Board.

A: Audited; UA: Unaudited

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