

## Reliance Life Insurance Limited: [ICRANP-IR] BB+ (assigned)

July 20, 2020

Facility/Instrument	Rated Amount (NPR Million)	Rating Action (July 2020)
Issuer Rating	NA	[ICRANP-IR] BB+ (assigned)

### Rating action

ICRA Nepal has assigned the issuer rating of [ICRANP-IR] BB+ (pronounced ICRA NP Issuer Rating Double B plus) to Reliance Life Insurance Limited (RLIL). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument. The sign of + (plus) or – (minus) appended to the rating symbols indicate their relative position within the rating categories concerned. Thus, the rating of BB+ is one notch higher than BB.

### Rationale

The rating factors in RLIL's good ownership profile, given the presence of banks and financial institutions (BFIs; ~18% held by Siddhartha Bank Limited (rated [ICRANP-IR] A-) with one director representation) and other promoters from large business groups. Similarly, a high proportion of the endowment business in the overall premium earnings (~97% in FY2019 and 9M FY2020), good quality of investment and adequate reinsurance arrangements, including the catastrophic provision, also remain rating positives. Further, the rating considers an adequate franchise network (100 outlets across the country as of mid-April 2020), a robust agency force, and the relatively unpenetrated insurance market, which offers adequate growth potential.

However, the rating remains constrained by RLIL's limited track record (operating since November 2017) and small scale of operations (~1.3% share in the industry in terms of premium earnings in 6M FY2020). Further, the management's ability to achieve sustainable growth amid intense competition remains to be seen. The rating is also constrained by RLIL's low policy continuation rate despite the initial years of operations (~57%<sup>1</sup> renewal in FY2019 in terms of premium). The rating also remains constrained by the fragmented nature of the industry and increasing competition (19 LICs in Nepal) and declining yield on investment book. Business disruptions caused by the Covid-19 triggered lockdown and the expected impact of the pandemic on the Nepalese economy might impair the company's business for the medium term, along with the likely increase in claims, raising rating concerns.

### Key rating drivers

#### Rating strengths

**Strong promoter profile** – The rating factors in the presence of BFIs in RLIL's ownership profile (~18% held by Siddhartha Bank Limited with representation of one director on the company's board) and another institutional promoter, Agni Holding Private Limited. The other major promoters also belong to large business groups in Nepal (MC Group, Kedia Organisation, Reliance Group, Shiv Shakti Group, etc).

**Product mix tilted towards endowment products and adequate distribution network** – RLIL's portfolio remains dominated by endowment insurance products, in line with the broader industry trend. Endowment insurance products accounted for ~97% of the gross premium written (GPW) in FY2019 as well as in 9M FY2020 with the term insurance business mainly comprising the mandatory Foreign Employment Term Policies (FE) business, accounting for the rest. The high proportion of the endowment business is a positive from the business growth prospects. Incremental business growth is likely to be driven by endowment products, given the fixed agreed percentage share in the FE business (1% in the industry) and the lukewarm market for term insurance business so far. Despite its short span of operations, the

<sup>1</sup> Considering the renewal of the grace period, the same would be ~73% (one-month grace period is given to life insurance companies (LICs) for policy renewal).

company has marked its presence across Nepal through 100 network points and an agency force of ~16,700 as of mid-July 2020. Healthy growth is expected in the medium term with full-fledged operations of newer outlets.

**Adequate reinsurance support** – The company enjoys adequate reinsurance support from Trust Re (for regular life policies) and Nepal Re (for catastrophic reinsurance, CAT XL and compulsory direct cession). While Trust Re is rated BBB+ by A.M. Best, Nepal Re is a Government of Nepal Undertaking (graded [ICRANP] IPO Grade 2 by ICRA Nepal).

**Adequate quality of investment; declining interest rate could create pressure in profitability** – The company had total investment of NPR 2,279 million as of mid-Apr-2020 which is dominated by FDRs and debentures of class-A banks at ~67%, and the rest is primarily accounted by the FDRs in class B banks. In the high interest rate prevailing in the Nepalese banking system in the last three years, investment yields of the company remained decent at ~12% for FY2019. However, this has declined to ~10% in 9M FY2020, in line with the declining interest rate scenario in the Nepalese banking sector. Declining interest rate environment, post the Covid-19 pandemic, is likely to create pressure over the investment earning as most of the investments are short-term in nature.

## Rating challenges

**Limited track record of operation with small market share** – RLIL has a limited operating track record of less than three years (commenced operation from November 2017). Due to its short span of operations, the company has a small market share of ~1.3% in the 19-payers industry with NPW of ~NPR 578 million in H1 FY2020. Despite the low market share, ICRA notes the consistent growth since the start of operations. RLIL's GPW stood at NPR 833 million in 9M FY2020, registering an annualised growth of ~50%, albeit on a small base. The growth was backed by the strong franchise network (100 outlets as of mid-April 2020) and agency force (12,555 agents as of mid-April 2020) developed by the company within a limited time span. RLIL's marketing efforts and geographical expansion helped the company bring in healthy FYP in 9M FY2020. The continuation of similar growth in FYP as well as an improving policy continuation rate (renewal rate) will be critical for determining the incremental business outlook for RLIL. However, promoter support and management ability remain a comfort. Mid-term growth may remain constrained by the economic impact of the Covid-19 pandemic.

**Low policy continuation rate** – The policy continuation rate is low at ~57% renewal in FY2019 in terms of the premium, which remains comparable to the new age peers while lower than some established peers. However, considering the renewals during the grace period, the same would be ~73% (one-month grace period is given to LICs for policy renewals).

**Subdued return indicators with high cost of operations** – RLIL's return indicators remain subdued, given the initial stage of operations and the high acquisition cost associated with the insurance business in initial years. Moreover, due to the sizeable endowment business, RLIL's profitability remains highly reliant on the transfer of surplus on the actuarial evaluation of the life fund. ICRA Nepal also expects the onset of Covid-19 to negatively impact business in FY2020, as well as higher claims. However, the acute awareness of insurance would result in higher demand for term products.

In FY2019, RLIL reported a net profit of ~NPR 27 million on a net premium of NPR 717 million (net profit of NPR 61 million on a net premium of NPR 797 million in 9M FY2020) corresponding to a return on net worth of ~2% (~5% in 9M FY2020 before the transfer of the actuarial surplus from the life fund to the profit and loss account). The company's return indicators were affected by a relatively high operating expense ratio (total management expense of ~44% of GPW in FY2019; ~31% in 9M FY2020) on a small scale of operations. This was higher than the regulatory ceiling of 30%. However, the same is likely to decline in the near future with the achievement of economies of scale as the business volume grows. The company would require a healthy pace of premium growth, an endowment product-driven portfolio, and a growing life fund to improve its profitability.

**Analytical approach:** For arriving at the rating, ICRA Nepal has applied its rating methodology as indicated below.

### Links to applicable criteria

[Issuer Rating Methodology](#)

## About the company

Reliance Life Insurance Limited (RLIL) is a public limited life insurance company (LIC), operating since November 2017. Its head office is in New Baneshwor, Kathmandu. RLIL has been established in the Nepalese capital with the promoters including Siddhartha Bank, Agni Group and other major promoters also belong to large business groups in Nepal (MC Group, Kedia Organisation, Reliance Group, Shiv Shakti Group, etc).

RLIL is a new player in the life insurance industry of Nepal. Along with 10 other LICs, RLIL was licensed by the Insurance Board in 2016/17, taking the total number of life insurers to 19 from 9. As of mid-April 2020, the company has been in operations with 100 branches and 12,535 individual agents and 20 corporate agents spread across the nation for procuring new business and extending after-sales services.

RLIL's total paid-up capital was NPR 1,470 million as of mid-April 2020 and will reach NPR 2,100 million after the public issuance. Post the IPO, the promoter: public shareholding will be 70:30. RLIL reported a profit after tax of NPR ~26 million for FY2019 on a total asset base of NPR ~2,174 million as of mid-July 2019 compared to profit after tax of NPR 92 million in FY2018 on a total asset base of NPR 1,642 million as of mid-July 2020. The company reported a PAT of ~NPR 61 million for 9M FY2020 over an asset base of ~NPR 2,655 million as of mid-April 2020.

## Key financial indicators:

Amount in NPR million	FY2018 (Audited)	FY2019 (Audited)	9M FY2020 (Provisional)
<b>Number of months in operation</b>	<b>8</b>	<b>12</b>	<b>9</b>
First year premium (FYP)	85.6	694.1	492.5
Renewal premium (RP)	-	48.4	261.1
Single premium (SP)	-	-	79.8
Total gross premium (TGP)	85.6	742.4	833.4
Net premium	83.7	717.4	797.2
Premium on endowment policies	84.8	723.4	805.6
% share of endowment in total premium	99.1%	97.4%	96.7%
Premium on term policies	0.7	19.0	27.8
% share in total premium	0.9%	2.6%	3.3%
Total management expenses	82.6	324.9	261.3
% of gross premium		43.8%	31.4%
Total investment	1,490.9	1,743.5	2,440.2
Yield on investment	12.9%	12.0%	10.0%
Profit after tax	91.5	26.5	61.4
Return on equity	9.1%	1.7%	5.1%
Solvency margin	1.12	1.29*	

\* As per the regulatory directive, the solvency ratio should be 1.5 times or above. The paid-up capital of RLIL is only NPR 1.47 billion as against minimum licensing capital of NPR 2 billion. At available capital of NPR 1.47 billion the solvency ratio comes out to be 1.77 times as of mid-July 2019.

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