

PRESS RELEASE

Neco Insurance Limited

March 2024

Rating

Instruments/ Facilities	Amount (NPR. Mn)	Rating	Rating Action
Issuer Rating	NA	IRN A+ (Is)	Assigned

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN A+ (Is) [Single A Plus]. Issuers with this rating are considered to have the adequate degree of safety regarding timely servicing of financial obligations. Such issuers carry low credit risk.

Detailed Rationale

The rating assigned to Neco Insurance Limited (NIL) derives comfort from its extensive operating history, strong franchise network, consistent business growth, stable profitability and robust solvency and liquidity position. The rating also factors the strong ownership structure including a 15% stake from a government-owned commercial bank and a 17.90% stake held by Mahato group. Rating also takes into consideration NIL's adequate reinsurance arrangements including catastrophic provisions.

However, these rating strengths are partially offset by the company's reliance on the motor segment, which accounted for ~49% of its Net Premium Earned (NPE) in FY23. The future underwriting performance of NIL is expected to be influenced by the performance of this segment. Rating concerns also arise from intense competition within the industry and uncertainties surrounding changes in insurance laws and regulations mandated by the Nepal Insurance Authority (NIA), which could impact profitability. Going forward, the company's capability to upscale proportionally while upholding financial metrics and solvency standards will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long track record, strong market position and seasoned management team

NIL has established itself as a prominent figure in the Nepalese general insurance sector since its inception in 1994. With a robust track record spanning decade, it stands as one of the largest players in the industry. The company's strong market position is supported by its widespread network of branches throughout the country. Furthermore, NIL benefits from a seasoned management team comprising professionals with extensive industry experience. This leadership strength is a positive factor contributing to its overall rating assessment.

Strong solvency and high retention ratio

As of mid-July 2023, NIL's solvency margin, calculated as per the regulatory directive, stood at ~3.32 times (versus a regulatory minimum of 1.5 times) against ~5.49 times as of mid-July 2022. The decline in solvency ratio can be attributed to the adjustment in minimum paid-up capital requirements enforced by the Nepal Insurance Authority (NIA), compounded by delays in the disbursement of Covid-19 related claims from the exchequer. Furthermore, NIL maintains a notably higher retention ratio relative to its peers within the general insurance sector. As of mid-July 2023, the retention ratio stands at ~58%, a substantial margin above the industry average of ~38%. This indicates robust policyholder loyalty and effective risk management strategies, contributing positively to NIL's overall financial profile and operational resilience.

Stable profitability and sound investment strategy

NIL maintains a satisfactory profitability profile, characterized by a stable profit after tax (PAT) trajectory with CAGR of 13% between FY20 and FY23. Notably, the company reported an underwriting surplus of ~NPR 530 million in FY23, surpassing the figures from FY22 and FY21. This suggests a

gradual recovery from the pandemic's impact and reflects positively on its rating outlook. The profitability of NIL is strengthened by its investment income, with an average yield of ~8% on an investment portfolio valued at ~NPR 5,097 million as of mid-July 2023 (average yield of ~7% on an investment portfolio valued at ~NPR 4,541 as of mid-July 2022). Furthermore, NIL's investment portfolio adheres largely to regulatory guidelines, with a significant allocation to Government securities and bank fixed deposits. This prudent investment strategy contributes to the stability and resilience of NIL's financial position.

Key Rating Weaknesses

Portfolio concentration in motor segment

NIL's portfolio exhibits a notable concentration in motor insurance, comprising ~36% of Gross Premium Written (GPW) and ~49% of Net Premium Written (NPW) in FY23. NIL's portfolio mix is dominated by the motor segment (~49% of Net premium earned (NPE) in FY23) aligned with industry trend, followed by property (~26%), cattle and crop (~9%), miscellaneous (~6%), engineering (~5%), marine (~4%) with negligible contribution from other segments. This dependency on motor insurance renders the company vulnerable to adverse impacts stemming from changes in motor vehicle businesses due to policy alterations.

Impact of regulatory changes on industry structure and operating environment

In recent years, the insurance industry has encountered a series of regulatory adjustments, significantly impacting its operational landscape. These changes include alterations in tariffs, risk coverage, capital requirements, and competitive dynamics. The licensing of numerous general insurers in FY2018 reshaped the industry's competitive landscape. The recent revision in minimum paid-up capital requirements has further impacted the operating environment, leading to mergers among some companies and others seeking fresh equity infusion. Although regulatory changes aim to enhance insurance sector penetration and industry growth, they concurrently pose challenges for players, including NIL. Navigating these changes demands strategic agility and adaptability to sustain profitability and ensure long-term viability in the dynamic insurance landscape.

Fragmented market with intense competition

In Nepal's non-life insurance sector, the competitive landscape presents significant challenges for companies, particularly in retaining customers and ensuring profitability. The market is crowded with numerous insurance companies with growth opportunities being limited, leading to intense competition. Companies are aggressively striving to retain their existing customer base, resulting in pricing pressures and difficulties in distinguishing their products. Moreover, since the motor segment serves as a primary revenue source for non-life insurers in Nepal, any slowdown in the automobile industry or changes in vehicle financing regulations could hinder growth prospects. Currently, there are 14 insurance companies in Nepal, down from 20. These companies collectively generated a Gross Premium Written (GPW) of ~NPR 3,300 million during FY23, with NIL holding ~9% of the total GPW, ranking 4th in market share, indicative of a stable position in the industry.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

About the Company:

Established in December 1994, Neco Insurance Limited (NIL) is the 9th private sector general insurer in Nepal. NIL is a large-sized company with ~8% of the market share in terms of the general insurance industry's gross premium written in FY20-FY23. As of mid-July 2023, the company is in operation with 92 branches spread across the nation for procuring business and extending after-sales services. The paid-up capital and the net worth of the company as of mid-July 2023 is ~NPR 2,012 million and NPR 4,237 million, respectively. NIL has a 51:49 promoter-public shareholding ratio. The major shareholders as on mid-July 2023 include Rastriya Banijay Bank Limited (15%), Kriti Kumari Mahato (10.88%), B.K. Vinayak Private Limited (7.02%), Citizen Investment Trust (8.12%),

Agriculture Development Bank Limited (3.34%), Investment Management Company Limited (2.45%), among others. NIL reported a PAT of ~NPR 705 million in FY23 (~NPR 547 million in FY22) over an asset base of ~NPR 8,148 million as of mid-July 2023 (NPR ~8,311 million in mid-July 2022).

Financial Indicators (Standalone)

Amount in NPR million	FY20	FY21	FY22	FY23	Q2FY24
	Audited				Unaudited
Gross Premium Written (GPW)	2,074	2,415	2,854	2,922	1,094
Net Premium Written (NPW)	1,270	1,647	1,924	1,681	616
Retention	61%	68%	67%	58%	56%
Net Premium Earned (NPE)	1,192	1,457	1,689	1,792	616
Underwriting Surplus	411	384	429	530	67
Net Claims Incurred / NPE (Claims Ratio)	49%	54%	53%	49%	55%
Management Expenses / NPE (Expense Ratio)	33%	30%	33%	36%	52%
Net Commission Expenses / NPE	-16%	-10%	-11%	-15%	-18%
Combined Ratio (A)	66%	74%	75%	70%	89%
Investment Income / NPW	21%	15%	18%	27%	35%
PAT/ Total Asset Base	10%	7%	7%	9%	2%
PAT/ Reported Net Worth	19%	16%	15%	16%	5%
Profit After Tax	483	507	547	705	221

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About Infomerics Credit Rating Nepal Limited:

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