

PRESS RELEASE

Asian Life Insurance Company Limited

July 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 Minus Issuer]. 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 Asian Life Insurance Company Limited (ALICL) derives comfort from its long track record of operations (since 2008), experienced management team alongside strong geographical coverage with 139 offices spread across 74 districts of Nepal bolstering market penetration. The rating also factors in adequate reinsurance agreement with low risk retention of NPR 0.4 Mn-0.8 Mn/policy alongside catastrophe reinsurance mitigating exposure of ALICL towards significant claims arising from catastrophic events. The rating also factors in ALICL's diverse investment across various instruments with increasing investment yield and investment income/NPW¹ ratio. Ratings also takes into consideration ALICL's adequate policy holders funds (~NPR 41 Bn as on Q3FY24) alongside substantial catastrophic reserves (~NPR 215 Mn as on Q3FY24) which together offers adequate financial cushion to policy holders as well as ALICL's moderate financial profile characterized by consistent increase in GPW² coupled with rising investment yield contributing towards healthy uptick in operating profits.

However, these rating strengths are partially offset by the steady decline in ALICL's new business premium over past year, as a result of increased business competition/fragmentation of industry, creation of large institutions as a result of mergers and general economic downturn. The rating constraints also factors in increasing combined ratio on account of increasing loss ratio primarily attributable to higher number of claims arising from policy surrenders and partial policy maturities, decreasing policy continuity and significant uptick in unexpected claims (surrender value claims and partial maturity claims) over past period. The rating is further constrained 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-the increase of minimum paid up capital to NPR 5 Bn and requirement to maintain a complete provision against vested bonus and 50% against future bonuses have created bottleneck in business operations and continuity. Going forward, the company's capability to upscale proportionally while upholding financial metrics, maintain solvency standards in increased capital base alongside generate adequate profits from its investment portfolio will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long track record of operation with well-seasoned management team

Incorporated in 2008 AD, ALICL boasts over seventeen years of operational history, making it one of the oldest life insurance company in Nepal. Over its long tenure, ALICL has navigated and adeptly responded to numerous shifts in the environmental, industrial, and political landscapes. Alongside

¹ Net Premium Written

² Gross Premium Written

long track record of operation, ALICL is backed by a team of highly skilled and experienced professionals who oversee the company's daily operations. Mr. Dinesh Lal Shrestha, the CEO, holds a Master's Degree and has over 20 years of experience working as CEO and other various positions in various banking and insurance sectors. Mr. Hom Bahadur Shrestha, the Deputy CEO, has a Master's Degree and has more than 20 years of professional experience in insurance sectors. With their combined expertise and years of experience, the management team is expected to enhance the company's business profile in the future.

Investment across diverse instruments with increasing investment yield and investment income/NPW ratio

ALICL has strategically diversified its investments across multiple sectors, achieving robust growth with a CAGR of ~13% from FY21 to FY23. This growth is underscored by a steady increase in yields, rising from 7.16% to 9.77% over FY21-23. This improvement primarily stems from heavier investments in fixed deposits of commercial banks with longer maturity periods (~44% of total investments), and enhanced returns on loans and advances provided to policyholders, escalating from 7.80% in FY21 to 17.55% in FY23. Consequently, the investment income ratio surged significantly from 38.55% in FY21 to 58.29% in FY23. ALICL have investment portfolio of NPR 35,762 Mn and loan portfolio of NPR 4,789 Mn as on FY23 end. The increasing investment portfolio and improved returns have been instrumental in driving operating profits, enabling ALICL to effectively meet its escalating claim obligations. Additionally, during FY23, ALICL expanded its investments by acquiring stakes in subsidiary and associate companies. Notably, ALICL holds a majority stake of 72.86% in Asian Capital Limited, and significant shares in two associates, Mountain Glory Hotel (39.09% holding) and Orchid Holdings Limited (39.69% holding) as on FY23 end. These investments span diverse sectors including capital markets, investment banking, and the hospitality industry, thereby enhancing risk diversification. Despite, these strategic investments, the subsidiary and associates have yet to yield positive returns and have incurred losses. Monitoring the profitability and performance of these investments over long term remains key rating monitorable.

Adequate reinsurance agreement with comfortable solvency position

ALICL have entered into the reinsurance agreement with SCOR SE (Singapore Branch), HANNOVER RUECK SE (Malaysian Branch), Nepal Reinsurance Co. Ltd. & Himalayan Reinsurance Ltd. The treaty shall apply to all life business underwritten by ALICL. ALICL risk retention of only NPR 0.4-0.8 Mn per policy is relatively lower than its peers which provides comfort to ALICL as reinsurer reimburses extra sum if any beyond NPR 0.4-0.8 Mn. Catastrophic reinsurance is done with Himalayan Reinsurance Limited. Availability of catastrophe reinsurance and low risk retention (NPR 0.4-0.8 Mn per life policy and 40% for FE) relating to all other policies is a rating positive as it reduces stress on liquidity and maintains solvency position. The solvency of ALICL is comfortable with it being 2.21x in FY23 (regulatory requirement of 1.5x). The solvency ratio has moderated from 4.47x in FY22 on account of increased minimum paid up capital.

Moderate financial profile supported by consistent growth in Gross Premium Written

ALICL has maintained a consistently moderate financial profile which is ably supported by consistent growth in Gross Premium written. The Total Gross Premium of ALICL have steadily increased over past years. It has achieved a CAGR of ~9% over FY21-23 increasing from NPR 5,920 Mn in FY21 to NPR 7,017 Mn in FY23 (Q3FY24 shows GPW of NPR 5,760 Mn). In addition to steady increase in GPW, the investment income also has steadily increased achieving a CAGR of ~33% over FY21-FY23. These ratios combined have resulted in improvement in operating profits of ALICL (~NPR 1,012 Mn in FY23 vis-à-vis NPR 570 Mn in FY21) as well as operating ratio (85.89% in FY23 vis-à-vis 96.56% in FY20). The steady increase in GPW coupled with investment yield is a rating positive. Ability of management to continue the same and improve the scale is key monitorable.

Adequate policy holder funds and catastrophic reserves

ALICL have adequate policyholders' fund as of Q3FY24 end as indicated by sufficient Life Insurance Fund/Sum Assured ratio of ~30%. The steady increases in premium has led to increase in

policyholder's fund with the same reaching ~NPR 41Bn in Q3FY24 (~NPR 26 Bn in FY21 end). Availability of such substantial policyholder fund is crucial for insured as it shields insured from default risk and ensures adequate financial cushion to them. Transfer of Surplus from Life Insurance fund to P/L A/c indicates excess cushion beyond actuarial requirements which is a rating positive as it indicates ALICL prudent risk management. Moreover, the ever increasing catastrophic reserves (~NPR 215 Mn in FY24 vis-à-vis ~NPR 120 Mn in FY21) also provides substantial coverage to ALICL against losses due to catastrophic events.

Key Rating Weaknesses

Declining New Business Premium amid Intense competition

There is heavy competition in life insurance sectors in Nepal. With issuance of nine licenses of life insurance businesses in 2017 itself, the number has increased to 18. However, with regulatory requirement to increase the capital to NPR 5 Billion, companies underwent merger and at present 14 insurance companies are in existence. ALICL holds ~5% shares of GPW and NPW as of Q3FY24. With large number of insurance companies in business and existence of large corporations as result of merger, ALICL is expected to face high competition in bringing in new customers and create a challenge to retain existing customer base. The same is evident due to declining new business premium. The new business premiums have reduced to NPR 1,543 Mn in FY23 from NPR 2,274 Mn in FY22 and NPR 2,184 Mn in FY21 marking a decline by 28% Y-On-Y basis.

Deterioration in combined ratio marked by increase in loss ratio

ALICL has persistently experienced a rise in loss ratio, rising to 122% in FY23 from 102% in FY20. The increase in loss ratio is primarily attributable to higher number of claims arising from policy surrenders and partial policy maturities. The challenging economic environment, characterized by increasing unemployment and deteriorating economic conditions, has prompted a significant number of policyholders to terminate their policies, leading to an elevated claim frequency. The resulting higher claim ratio has caused the combined ratio to deteriorate as it reached 144% in FY23 from 129% in FY20. Such rapid increase in combined ratio coupled with increase in total claims (NPR 2,897 Mn in FY23 vis-à-vis NPR 530 Mn in FY20) has taken a toll on the profitability of the business. Of particular concern are unexpected claims such as those arising from partial policy maturities and surrender values, which collectively account for approximately 68% of the total claims. These types of claims have exacerbated liquidity challenges for ALICL, necessitating the company to rely on external borrowings for timely settlement.

Impact of regulatory changes on industry structure and operating environment

The players in the life insurance industry have been facing frequent changes in regulatory environment, especially those related to risk cover and capital requirements. The regulatory board has mandated all LIC's to maintain a complete provision of the vested bonus and 50% provision on future policyholder bonuses. The future bonus provisioning requirement is likely to moderate the Nepalese LIC's ability to declare the returns to policy holders as well as shareholders, going forward. Also, the insurance board has mandated all life insurance companies to maintain minimum paid up capital of NPR 5 Bn. The paid up capital of ALICL as on Mid-April 2024 is NPR 3,155 Mn. Ability of company to meet the minimum capital requirements is key monitorable.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

About the Company:

Established in 2008 AD, Asian Life Insurance Company Limited (ALICL) is one of the oldest life insurance company in Nepal. ALICL is a medium-sized company with ~5% of the market share in terms of the general insurance industry's gross premium written in FY20-FY23. ALICL has wide geographical coverage through its 49 branches and 90 sub branches spread evenly across all seven provinces of Nepal. It has its geographical presence in 74 number of districts as of FY23. Also it has

5,223 number of individual agents and 6 corporate agents. As per unaudited Q3FY2024 the paid-up capital and the net worth of the company as of mid- April 2024 is NPR 3,155 million and ~NPR 3,958 million. The life insurance fund of the company as of mid-April 2024 stood at ~ NPR 41 Bn (~ NPR 37 Bn in FY23 end). PRIN has a 51:49 promoter–public shareholding ratio. The major promoters include Shakti Kumar Golyan (5.31%), Rukmini Basnet (3.90%) among others.

Financial Indicators (Standalone)

Amount in NPR million	FY20	FY21	FY22	FY23	Q3FY24
	Audited				Unaudited
Gross Premium Written	4,591	5,920	6,913	7,017	5,760
Net Premium Written	4,522	5,817	6,737	6,841	5,615
Income from Investment and Loans	1,888	2,243	2,783	3,988	2,921
Operating Profit	569	570	636	1,012	691
Profit After Tax	269	338	403	377	210
Policy Holder Fund	20,902	26,135	31,598	37,384	41,471
Net Worth including Fair Value Reserves	2,997	6,414	4,558	3,734	3,958
Total Assets	24,701	33,800	37,463	42,744	48,178
Retention Ratio(%)	99	98	97	97	97
Combined Ratio(%)	129	135	130	144	141
Yield on Investment(%)	8.30	8.26	8.29	10.62	9.24
ROTA(%)	1.09	1.15	1.13	0.94	0.46
Solvency Ratio (times)	3.83	4.26	4.47	2.21	NA

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About Infomerics Credit Rating Nepal Limited:

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