

Citizen Life Insurance Company Limited: Rating upgraded to [ICRANP-IR] BBB

May 30, 2022

Summary of rating action

Facility/Instrument	Rated Amount (NPR Million)	Rating Action
Issuer Rating	NA	[ICRANP-IR] BBB; upgraded from [ICRANP-IR] BBB-

Rating action

ICRA Nepal has upgraded the issuer rating of Citizen Life Insurance Company Limited (CLICL) to [ICRANP-IR] BBB (pronounced ICRA NP Issuer Rating triple B) from [ICRANP-IR] BBB- (pronounced ICRA NP Issuer Rating triple B minus). Such issuers are considered to have moderate degree of safety 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.

Rationale

The rating upgradation factors in CLICL's healthy premium growth including the growth in the first year premium, which underscores the company's good market positioning. The rating upgradation also considers the company's improved policy continuation rate (87% in FY2021 vs. 72% in FY2020 in terms of premium¹), its recent increase in market share in the industry premium and its adequate solvency profile. Going forward, CLICL's strong franchise network (148 network points across the country as of mid-March 2022), its adequate solvency profile and experienced promoters² and management team augur well for future business growth. Low penetration of the insurance sector in Nepal also offers growth potential to the new players like CLICL. The rating also takes into consideration, quality investment profile with decent returns, and the company's adequate reinsurance arrangements, including catastrophic provisions, which provides comfort to its claims-paying ability and its ability to maintain solvency in the event of catastrophic events. Similarly, a high proportion of endowment business in the overall premium earnings (~92% in FY2021 and ~90% in H1 FY2022), and the company's ability to contain business acquisition cost and management expenses within the regulatory ceiling even during the initial years of operation, also remain rating positives.

However, the rating remains constrained by CLICL's limited track record (operating since October 2017) and the fragmented life insurance industry (comprising of 19 LICs). As such, the management's ability to sustain its financial and operational numbers over a longer timeframe remains untested. ICRA Nepal also notes a marginal uptick in the death claims of the company in FY2021, emanating from term policies. The ability of the company to implement adequate underwriting controls to keep such uptick in check, will also remain a key monitorable. The lag in the preparation of actuarial evaluation report by the life insurers in general (including CLICL) also remains a concern as the latest solvency position and the impact of recent business strategies on the solvency profile can only be ascertained after a time lag of 18-24 months. This also remains a rating limitation.

¹ ~87% for FY2021 and ~65% for FY2020 as per the regulatory method; regulatory method considers enforce number of policies of the immediate previous year as a base to calculate renewal persistency (policy continuation rate) i.e., number of renewed policies at the end of this year/ number of enforce policies at the end of last year.

² few key promoters of CLICL are common with Shikhar Insurance Company Limited (rated IR-A by ICRA Nepal)

Through a recent regulatory change³ the insurance sector regulator has required all LICs to maintain a complete provision against the vested bonuses as well as future policyholder bonus⁴. By virtue of the new regulations, the LICs are required to maintain a 100% provision for vested as well as future bonuses by FY2025 (the vested bonuses and ~50% of future bonus has been provided by CLICL till mid-July 2020, the date of latest actuarial valuation report). Regulatory requirement for providing 100% of the future bonus is likely to result in a relatively lower transfer of actuarial surplus to the shareholder's account and lower the returns to the shareholders. Moreover, the requirement for complete provision of future policyholder bonus could lower the incremental policyholder bonus declaration, which could have an impact on the future business growth of the company. This will remain a key rating monitorable over the medium term.

Key rating drivers

Strengths

Good business growth; supported by adequate network and experienced team– CLICL has reported a CAGR growth of 106% in gross premium written (GPW) during FY2018-FY2021 (including 80% yoy growth in FY2021). This has been supported by good growth in first year premium (FYP) (CAGR 124% and yoy growth of 74% respectively during the above period). The company continues to maintain its growth trajectory during H1FY2022 as well (annualized growth of 41% in GPW and 32% in FYP). Since endowment insurance products accounted for ~92% of the gross premium written (GPW) in FY2021 (~90% in H1 FY2022), improvement in CLICL's policy continuation rate (87% in FY2021 vs, ~72% in FY2020 and ~51% in FY2019, all calculated in terms of premium) augurs well for the sustainability of growth.

Despite its short span of operations, the company has registered strong presence across Nepal through 148 network points (includes branches and sub-branches) and an agency force of ~22,700 as of mid-March 2022. Future business growth is expected to remain supported by the full-fledged operations of newer outlets (35 new outlets added since last rating). CLICL's BOD consists of experienced members of the Nepalese insurance industry. The company's management team comprises seasoned professionals from the life insurance domain, which has aided the growth and performance of the company till date. Many of the key promoters of CLICL also have linkages with Shikhar Insurance Company Limited (rated IR-A by ICRA Nepal), which also adds to CLICL's credit profile.

Adequate solvency and good quality of investment – CLICL has maintained a comfortable capital position, as reflected in the solvency ratio, calculated as per the regulatory directive, of 2.03⁵ as of mid-July 2020 (against 1.93 times as of mid-July 2019 and the regulatory minimum of 1.5 times). The solvency profile is likely to remain adequate over the regulatory minimum with the company's future capital raising plans (including the IPO). However, the company's ability to attain increased minimum regulatory capital requirement of NPR 5 billion from its current paid up capital base of NPR 1.75 billion could remain a challenge and a key rating monitorable.

The company has a sizeable investment portfolio of NPR 7,646 million as of mid-January 2022 which is dominated by FDRs and debentures of class-A banks at ~84%, and the rest is primarily accounted by the FDRs in class B banks with minimal investment in equity shares. CLICL's investment yield for FY2021 (~10.8%⁶ for the year) was largely from the interest in FDRs and debentures; with the yield benefitting from the recent hardening of banking sector interest rates.

³ Valuation directive 2020; Annexure III- Maintenance of fund 2(h), released by Beema Samiti in August 2020

⁴ Future policyholder bonus refers to the bonus for immediate year after the actuarial valuation date

⁵ After adjusting for the cost of bonus. Before bonus adjustment solvency ratio was 2.39 times as of mid-July 2020 and 2.12 times in mid-July 2019.

⁶ Including profit on sale of investment of NPR 44 million, ~8% of total investment income in FY2021.

Satisfactory reinsurance arrangement – The company has adequate reinsurance arrangement with Nepal Re (for regular life policies; catastrophic reinsurance, CAT XL; and compulsory direct cession). Nepal Re is a Government of Nepal Undertaking rated [ICRANP-IR] AA- by ICRA Nepal. The company’s risk retention of NPR 0.5 million per life, although higher than few rated industry peers, remains low in relation to the company’s net worth and scale of operations. The company’s adequate solvency profile also provides comfort in this regard.

Profitability expected to remain supported by the improvement in economies of scale – CLICL’s return indicators remain good despite 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, CLICL’s profitability remains highly reliant on the transfer of surplus on the actuarial evaluation of the life fund. Since actuarial evaluation is done with a 18-24 month lag from the end of financial year, this results in a limitation in commenting on the recent profitability trends.

In FY2021, CLICL reported a net profit of NPR 372 million (profit before tax-PBT of ~NPR 177 million) on a net premium of NPR 3,420 million (PBT of NPR 110 million on a net premium of NPR 2,427 million in H1 FY2022) corresponding to a return on net worth, RoNW of ~15% before the actuarial transfer from/to⁷ from the life fund. The company reported moderate RoNW of ~12% in FY2020 because of the transfer of ~NPR 20 million to life fund from profit and loss account for maintaining policy bonus at competitive level (NPR 35-70 per thousand for FY2020). However, the adequacy of life fund going forward can be expected to remain supported by the improved yield on investments of ~10.8% in FY2021 (~10.2% in FY2020) on an increased level of investment portfolio and the company’s ability to keep its operating expense in check. Further, decline in operating expense ratio (total management expense of ~18% of GPW in FY2021 from ~25% in FY2020) with the increase in scale has also aided the company’s profitability profile.

Challenges

Limited track record of operation with small market share – CLICL has a limited operating track record of less than five years (licenced in August 2017, the company commenced operation from October 2017) in the Nepalese market. Despite strong initial growth (~80% growth in GPW in FY2021) the company still has a relatively modest market share of ~3% in the 19-payers industry with the company’s GPW of ~NPR 3,527 million in FY2021 (share of ~5% in terms of first year premium in the Nepalese LICs industry). However, it remains the second largest player in terms of GPW among 10 new players, with a share of ~12%. The growth has remained backed by adequate network points, strong agency channel and experienced BOD and management team.

Regulatory change regarding policy holder bonuses could affect near term profit and growth prospect – The regulator has required all LICs to maintain a complete provision of the vested as well as future policyholder bonus by FY2025. As of mid-July 2020, the company has provided for all of the vested bonus and 50% of the future bonus. Therefore, the company’s future profitability is likely to moderate over near to medium term due to reduced transfer of surplus from life fund until the gap is filled. The ability of the company to comply with the said regulatory requirement would remain a key rating monitorable over the near term.

Rising claims from term policy – Although the term policies of CLICL accounted for small portion of its GPW in FY2021, its share in the death claims stood much higher as compared to FY2020. The gradual uptick in the death claims proportion from term life products could remain a concern to the future profitability and solvency ratio of the company.

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

⁷ Transfer from profit and loss account to the life fund could be necessary if the actuarial evaluation reveals any inadequacy of the amount being maintained in the life fund to cover probable future liabilities.

Links to applicable criteria

[Issuer Rating Methodology](#)

Link to last rating rationale:

[Rationale- Citizen Life Insurance Company Ltd \(December 23, 2020\)](#)

Company Profile

Citizen Life Insurance Company Limited (CLICL) is a public limited life insurance company (LIC), licensed by the Insurance Board in August 2017 and operating since October 2017. Its head office is in Teku, Kathmandu. CLICL has been established with Nepalese capital by its promoters, who include the media industry (Kantipur Publications Pvt. Ltd.), Nepalese BFIs, merchant bankers, investment management companies, insurance companies and high net-worth individuals. On an overall basis, institutions hold ~25% share and the rest is held by individuals.

CLICL is a new player in the life insurance industry of Nepal. Along with nine other LICs, CLICL was licensed by the Insurance Board in FY2017, taking the total number of life insurers to 19 from nine. As of mid-March 2022, the company has been in operation with 148 network points, approximately 22,600 individual agents and 35 corporate agents spread across the nation for procuring new business and extending after-sales services.

CLICL reported a profit after tax of ~NPR 372 million in FY2021⁸ on a total asset base of ~NPR 7,045 million as of mid-July 2021 compared to a profit after tax of NPR 262 million in FY2020 on a total asset base of NPR 4,679 million. The company garnered a profit of ~NPR 110 million during H1 FY2022 on a total asset base of NPR 8,380 million as of mid-January 2022.

Key financial indicators:

Amount in NPR million	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Audited)	FY2021* (Provisional)
Number of months in operation	9	12	12	12
First year premium (FYP)	166	756	1,072	1,863
Renewal premium (RP)	-	85	603	1,464
Single premium (SP)	236	324	285	200
Total gross premium (TGP)	402	1,165	1,960	3,527
Net premium	361	1,125	1,900	3,420
Premium on endowment policies	178	954	1,777	3,242
% share of endowment in total premium	44%	82%	91%	92%
Premium on term policies	224	212	183	285
% share in total premium	56%	18%	9%	8%
Total management expenses	129	346	495	652
% of gross premium	32%	30%	25%	18%
Total investment	2,053	2,680	3,804	5,693
Yield on investment	13.3%	11.0%	10.2%	0.0%
Profit after tax	102	231	262	372
Return on equity	7.9%	11.7%	11.8%	14.7%
Solvency margin	1.30	1.93	2.03	-

* Before actuarial valuation

** As per the regulatory directive, the solvency ratio should be 1.5 times or above. The paid-up capital of CLICL is only NPR 1.75 billion as against the then minimum licensing capital of NPR 2 billion.

⁸ Provisional



For further details please contact:

Analyst Contacts:

Mr. Sailesh Subedi (Tel No. +977-1-4419910/20)

sailesh@icranepal.com

Ms. Kushum Bhattarai (Tel No. +977-1-4419910/20)

kushum@icranepal.com

Mr. Bipin Timilsina (Tel No. +977-1-4419910/20)

bipin@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha, (Tel. No. +977-1-4419910/20)

barsha@icranepal.com

About ICRA Nepal Limited:

ICRA Nepal Limited, the first credit rating agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as the rating process and methodologies, analytical software, research, training, and technical and analytical skill augmentation.

Our parent company, ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment information and credit rating agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

For more information, visit www.icranepal.com

ICRA Nepal Limited,

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

Phone: +977 1 4419910/20

Email: info@icranepal.com

Web: www.icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents.