Reliable Nepal Life Insurance Limited

Rating

Facilities	Amount (Rs. Million)	Rating1	Rating Action
Issuer Rating	**NA**	**CARE-NP A- (Is) [Single A Minus (Issuer Rating)]**	**Revised from CARE-NP BBB+ (Is)**

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

Detailed Rationale & Key Rating Drivers

The revision of rating assigned to RNL factors in its strong solvency profile with substantial improvement in solvency ratio at the end of FY24 (Audited, FY refers to the twelve-month period ending mid-July), growing scale of operations with increase in gross earned premium (GPE), outperforming the industry average growth, and improving financial performance during FY24 and 9MFY25 (Unaudited, refers to the nine-month period ended mid-April 2025) marked by sustained improvement in profitability supported by controlled lapse ratio, commission ratio, expense ratio and steady increment in investment income. The rating continues to factor in RNL's experienced board and management team, satisfactory asset quality of its investment book, adequate reinsurance arrangement and adequate branch network.

The rating, however, remains constrained by RNL's moderate size of operations with modest market share, relatively short track record of operations and presence in a highly competitive industry coupled with exposure to regulatory requirement, being a highly regulated industry. Given the company's limited operational track record, claims experience related to unforeseen circumstances remain untested to some extent.

Going forward, the ability of the company to continue to profitably grow its scale of operations while diversifying the policy segments and maintaining quality of the investment portfolio will be key rating sensitivities. Furthermore, its ability to achieve the minimum capital and maintain adequate cushion in the regulatory solvency ratio at all times will also be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced board and management team

RNL has seven members on its board chaired by Mr. Udaya Nepali Shrestha. Mr. Shrestha has more than one and half decade of experience across various sectors including financial services. Mr. Indra Prasad Sharma, Director, has more than thirteen years of experience in various sectors. The company's management team comprises of professionals having diversified experience including finance, banking and insurance. The day-to-day operations of the company is headed by Chief Executive Officer (CEO) Mr. Narayan Babu Lohani, who has more than a decade of experience in financial sector and is supported by other experienced management team members.

Strong solvency profile

From FY24, Nepal Insurance Authority (NIA) has mandated all the insurance companies to comply with Risk Based Capital and Solvency Directive, 2024; (*prior to FY24, insurance companies followed the Valuation Directive 2020).* The solvency margin of the company is calculated by dividing available capital resource (ACR) by risk-based capital requirement (RBC). RNL's ACR stood at Rs. 8,594 Mn and its RBC stood at Rs. 2,380 Mn at the end of FY24 resulting in strong solvency margin of 3.61 times against

[1]Complete definition of the ratings assigned are available at https://www.careratingsnepal.com/ and other CARE publications

the supervisory target capital level as per RBC Directive of 130% (1.30 times) (FY23: 1.58x). The solvency margin has improved in FY24 end under the new regime due to increase in the excess of assets over liability as per solvency balance sheet mainly on account of increased asset base (investments of the company), returns of the investments and ploughing back those returns coupled with completion of initial public offering amounting to Rs. 2,990 Mn (including premium) in August 2023. Consequently, RNL's solvency level at the end of FY24 was one of the highest in the industry. 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.

Adequate geographical coverage through branches

RNL has wide geographical coverage through its 9 branches and 85 sub branches as on mid-April, 2025. The branches are spread over all 7 Provinces of Nepal. Also, it has 30,554 insurance agents as on mid-April, 2025 all over Nepal. Adequate number of branches provides advantage to business growth in terms of marketing, branding and reaching close to customers.

Improved financial performance in FY24, likely to sustain in FY25

RNL's gross earned premium (GPE) increased by ~11% y-o-y to Rs. 4,211 Mn during FY24 (Industry growth: ~10%) on account of increase in both first year premium and renewal premium collections. The first-year premium including single premium witnessed ~8% y-o-y growth to Rs. 1,667 Mn mainly on account of rise in foreign employment policies (FET policies) aided by increase in employees going abroad coupled with increase in such awareness from NIA as well as insurers led to increase in single premium. Similarly, RNL's renewal premium also increased by ~13% y-o-y during FY24. Accordingly, Net earned premium (NPE) increased by ~7% y-o-y to Rs. 3,818 Mn in FY24. Retention ratio was at ~91% for FY24 (FY23: 94%). Net claims paid slightly increased by 0.72% y-o-y to Rs. 1,130 Mn during FY24. However, loss ratio remained controlled at 29.60% in FY24 (FY23: 31.50%). Increase in premium collections coupled with muted growth in claims paid led to increase in net underwriting performance, which witnessed ~17% y-o-y growth to Rs. 1,499 Mn in FY24. Also, investment income increased by ~49% y-o-y to Rs. 1,393 Mn in FY24 marked by increase in overall investment portfolio and investment yields. RNL reported net profit amounting to Rs. 388 Mn during FY24 (FY23: Rs. 334 Mn).

During 9MFY25, GPE increased by ~24% y-o-y to Rs. 3,691 Mn (Industry growth: ~13% over the same period), mainly on account of increase in both first year premium and renewal premiums. NPE increased by ~27% y-o-y to Rs. 3,479 Mn in 9MFY25. Increase in premium collections, reduced loss ratio, commission ratio and also expense ratio led to increase in net underwriting performance in 9MFY25, which witnessed ~43% y-o-y growth to Rs. 1,681 Mn during 9MFY25. This coupled with ~22% y-o-y growth in investment income during 9MFY25, led to improvement in profitability of the company. Net profit increased to Rs. 466 Mn during 9MFY25 (9MFY24: Rs. 340 Mn).

Adequate reserve and reinsurance arrangement

RNL has entered into treaty reinsurance agreements with Nepal Reinsurance Company Limited (NRIC) and Himalayan Reinsurance Limited (HRL) where it cedes 6% as direct cession to each domestic reinsurance company, as per the regulatory requirement. The company has entered into facultative reinsurance with NRIC and HRL, where the ceding company (RNL) cedes 85% of the surplus over the ceding company's retention limits to NRIC and 15% of the surplus to HRL. The ceding company risk retention is Rs. 1 Mn for all claims. For life insurance policies issued prior to FY23, RNL has entered into an agreement with Hannover Reuck SE on the surplus basis with the retention limit of Rs. 0.5 Mn.

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. RNL has transferred Rs. 2,488 Mn during FY24 to life insurance fund, which increased to Rs.

9,995 Mn at the end of FY24. As on FY24, catastrophe reserve of RNL stood at Rs. 161 Mn, which increased from Rs. 121 Mn as on mid-July 2023.

Growing investment portfolio with satisfactory return profile

RNL's investment portfolio grew by ~54% y-o-y to Rs. 16,228 Mn at the end of FY24 and ~20% over FY24 level at the end of 9MFY25. Out of total investment, ~72% is in fixed deposits of different bank and financial institutions (BFIs), providing sufficient liquidity cushion to the company. Further, during FY24, RNL had moderate liquidity position with Liquid Assets to Technical Reserve standing at 1.63x (FY23: 1.42x). Other investments include investment in debentures, private equity ventures, equity instruments and mutual funds as per the investment guidelines of Investment Directive, 2023. As majority of investments of RNL are in deposits at different BFIs, investment income of RNL majorly comprises of interest income from these investments. Investment income (inclusive of interest income and realized gain on sale of equity instruments) increased by ~49% y-o-y to Rs. 1,393 Mn in FY24 backed by increase in overall investment portfolio. Average yield on investment of RNL slightly decreased to 10.45% in FY24 (FY23: 10.74%) amid decrease in base rates of the banks during FY24. The base rates have further moderated during 9MFY25, however RNL's yields on investments over the medium term is expected to be supported by most of these deposits being locked in at relatively higher rates for longer duration.

Key Rating Weakness

Limited track record and competition from other insurance companies coupled with relatively small market share in the life insurance industry

RNL started its operations during FY18. As on mid-April 2025, there were 14 life insurance companies and 3 micro life insurance companies operating in Nepal sharing total Rs. 122,693 Mn of GPE; where RNL shares 3.01% of total GPE (ranked 13th out of 14 life insurance companies), reflecting modest market share in the industry in comparison to other established life insurers. The market share of 5 big life insurers stood ~66% of GPE as on mid- April 2025 making it challenging for new entrants to gain significant foothold due to the established track record of these companies. Further, due to a relatively high number of life insurance companies present in Nepal, RNL is expected to face high competition to tap new customers leading to a challenging market dynamic to increase material market share. 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. Given the company's limited operational track record, claims related to unforeseen circumstances remain untested.

Exposure to regulatory risk

The insurance industry is regulated by NIA. 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 including FET policies was 44.64% as on mid- April, 2025, thus reflecting high growth potential in upcoming years. Also, NIA has mandated all life insurance companies to maintain minimum paid-up capital of Rs. 5,000 Mn. Only 8 life insurance companies out of 14 life insurance companies have fulfilled the requirement of minimum paid up capital as on mid-April, 2025. The paid-up capital of RNL is Rs. 4,640 Mn as on 9MFY25. RNL has proposed to issue the bonus share of 12% during FY25, which has been approved by the annual general meeting held on June 16, 2025 and the equity share capital will be Rs. 5,197 Mn at the end of FY25.

About the Company

Reliable Nepal Life Insurance Limited (RNL) is a life insurance company registered at Office of Company Registrar under the Company Act 2006 on December 04, 2007 and has obtained license from Insurance Board on August 02, 2017. The asset base of the company stood at Rs. 20,980 Mn as on April 13, 2025.

Financial performance

(Rs. Million)

Particulars	FY22 (A)	FY23 (A)	FY24 (A)	9MFY25 (UA)
Total Gross Premium	4,044	3,796	4,211	3,691
Net Premium Earned	3,829	3,570	3,818	3,479
Income from Investment	583	937	1,393	1,207
Profit after Tax (PAT)	342	334	388	466
Investments	7,108	10,547	16,428	18,924
Return on Total Assets (%)	4.75	3.29	2.59	3.19
Solvency ratio (times)*	2.16	1.58	3.61	-

A: Audited

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