Sun Nepal Life Insurance Company Limited

Rating

Facilities	Amount (Rs. In Million)	Ratings[1]	Rating Action
Issuer Rating	**NA**	**CARE-NP BBB+ (Is) [Triple B Plus (Issuer Rating)]**	**Revised from CARE-NP BBB (Is)**

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

Detailed Rationale & Key Rating Drivers

The revision of the issuer rating assigned to SNLIC takes into account the continued improvement in its financial performance, supported by consistent growth in premium earnings aligned with industry trends. The underwriting result has shown healthy growth, driven by favorable claims experience relative to premium growth. While there was a slight dip in profitability due to increased transfers to the life insurance fund, overall profitability remains satisfactory. The tangible net worth has seen a notable increase, primarily due to capital infusion through rights issuance, which is expected to enhance the company's asset base without corresponding rise in liabilities. This development is likely to have strengthened the Available Capital Resource (ACR) and improve the solvency position at the end of FY25. SNLIC's investment portfolio has expanded, with a significant portion allocated to secure, interest-bearing instruments, ensuring both liquidity and stability. The solvency ratio has improved and remains well above the regulatory minimum. Additionally, the rating continues to derive strength from SNLIC's experienced board and management team, good asset quality of investment book, adequate reinsurance arrangement along with growing geographical coverage through adequate branch network.

The rating, however, continues to be constrained by SNLIC's moderate track record of operations and presence in a highly competitive industry coupled with a modest market share in the life insurance industry and exposure to regulatory risk.

Going forward, the ability of the company to continue its growth momentum while diversifying the policy segments and maintaining quality of the investment portfolio will be key rating sensitivities. Furthermore, its ability to maintain minimum capital and 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 coupled with part of strong promoter group

SNLIC has six experienced members on its board led by Mr. Anuj Keyal who has been associated with the Keyal group in various capacities. The overall operations of the company are managed by Mr. Raj Kumar Aryal, CEO, having overall work experience of more than 17 years including his association with Insurance Board of Nepal. Mr. Aryal holds Master in Law (LLM) and has also served as Deputy Director and Head of the legal division of Insurance Board of Nepal. He is assisted by an experienced team across various functions. The promoter group shares of the company are mostly owned by individuals and institutions related to Keyal Group, K.C. Group and Rungta Group.

Improved financial performance during FY25

During FY25, the company's Gross Premium Earned (GPE) increased by ~17% y-o-y to Rs. 4,539 Mn (FY24: Rs. 3,885 Mn) (Industry average growth y-o-y during FY25: ~16%). The growth in GPE was mainly driven by increase in renewal

[1]*Complete definitions of the ratings assigned are available at https://www.careratingsnepal.com/ and in other CRNL publications*

of premium collections on conventional policies and the first-year premium collections. SNLIC continue to remain market leader in FET policies as on FY25 (~24%). Net Premium Earned (NPE) increased by ~25% y-o-y to Rs. 4,326 Mn with retention ratio of ~95% during FY25 from Rs. 3,453 Mn during FY24 with retention ratio of ~89%. Net Underwriting Result grew by ~24% y-o-y to Rs. 1,789 Mn in FY25 amid higher premium earnings and claims growing slower than premiums. Despite increase in underwriting result and steady investment income, Profit Before Tax (PBT) declined to Rs. 500 Mn during FY25 (FY24: Rs. 574 Mn) primarily due to a higher surplus transfer to the Life Insurance Fund, which rose to Rs. 2,351 Mn in FY25 from Rs. 1,803 Mn in FY24. SNLIC has reported increase in life insurance fund to Rs. 10,109 Mn in FY25 from Rs. 7,623 Mn in FY24 in order to meet the latter's liability and support the policyholder return, resulting moderate shareholder's return post-transfer.

Adequate solvency profile

From FY24, NIA has mandated all insurance companies to comply with the 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 the ACR by the Risk Based Capital Requirement (RBC). ACR stood at Rs. 6,093 Mn and RBC at Rs. 2,308 Mn at the end of FY24, resulting in an adequate solvency margin of 2.63 times, against the supervisory target capital level of 130% (1.30 times) as per paragraph (85), Annexure VI of the RBC Directive. The solvency margin improved at the end of FY24 under the new regime due to an increase in the excess of assets over liabilities as per the Solvency Balance Sheet—mainly on account of an increased asset base (investments of the company), returns from those investments, and ploughing back those returns. Hence, the solvency profile of the company remains adequate.

Adequate geographical coverage through branches and sub-branches

SNLIC has presence all over the country through its 49 branches (including Head Office) as on Mid-July 2025 along with 99 sub-branches. The branches are spread over all 7 Provinces and cover 70 districts (out of total 77 districts) of Nepal. Also, it has 40,438 insurance agents as of Mid-July 2025 (FY24: 38,393) all over Nepal.

Adequate reinsurance arrangement

In FY25, SNLIC adopted a comprehensive reinsurance framework in alignment with the Insurer's Reinsurance Directive, 2080. There is a direct cession of 6% of all business to each domestic reinsurer, Nepal Re and Himalayan Re, totaling 12%. From the remaining 88%, the company retained risk up to Rs. 1.20 Mn across most lines of business. After retention, 30% of the residual risk was compulsorily ceded - 15% each to Nepal Re and Himalayan Re. The remaining portion was then ceded to Nepal Re as the primary reinsurer. Supplementary riders such as Accidental Death Benefit, Permanent Total Disability, and Critical Illness followed the same proportional cession structure. For micro-term and joint-term plans, SNLIC retained 45% of the post-direct cession sum assured and ceded 55%. The Credit Protection Plan was fully retained by SNLIC after the standard 12% direct cession, with no further reinsurance. For Foreign Employment Term Life Plans, a Pool Reinsurance Arrangement was followed as per NIA's directive.

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.

Good assets quality of investment book

SNLIC had an investment portfolio (including investment in subsidiary company and interest-bearing call account) of around Rs. 15,307 Mn during FY25 which increased by ~32% over FY24. Out of the total investment portfolio of SNLIC, it has invested ~63% of the total investment as on July 15, 2025, in fixed and interest-bearing deposit at different Bank

and Financial Institutions and lends sufficient liquidity cushion to the company. Further, during FY25 company had moderate liquidity position with Liquid Assets to Technical Reserve standing at 1.49x. With growth in investment portfolio, investment income of SNLIC comprises majorly of interest income from those investments. Further, SNLIC reported investment income (including interest income in interest bearing call account) of Rs. 899 Mn during FY25 recording a growth of ~6% over FY24. Average yield on investment of SNLIC (FD's and interest-bearing call account) was 7.19% during FY25 (FY24: 9.26%).

Key Rating Weaknesses

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

SNLIC started its operations during FY18 and has a relatively short track record of operations compared with other established players. As on mid-July, 2025, there are 14 life insurance companies and 3 micro life insurance companies operating in Nepal, where SNLIC shared around 2.52% of total GPE in FY25 (out of 14 life insurance companies), reflecting a modest market share in the industry. Among the 14 life insurance companies, SNLIC ranked last in terms of GPE share. Further, due to a relatively high number of life insurance companies present in Nepal, SNLIC 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.

Moderate policy continuity rate

A healthy level of persistency and policy continuity rate indicates higher renewal premiums and a strong consumer franchise. Furthermore, it also indicates longer tenure of policy in force, which would enable the company to recover costs and make profits over the life of the insurance contract. However, policy continuity rate stood at 65% as on mid-July 2025 (60% as on mid-July 2024).

Exposure to Regulatory Risk

The insurance industry is regulated by Nepal Insurance Authority. 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 (percentage of population covered by insurance including FET policies) was 48.33% as on mid-July, 2025, thus reflecting less insurance reach in Nepal and high growth potential in upcoming years.

About the Company

Sun Nepal Life Insurance Company Limited (SNLIC) is a life insurance company registered at Office of Company Registrar under the Company Act 2006 on October 16, 2007 and has obtained license from Insurance Board on August 02, 2017. SNLIC's assets base stood at Rs. 18,002 Mn as on July 15, 2025.

Financial performance

(Rs. In Million)

Particulars	FY23 (A)	FY24 (A)	FY25 (UA)
Gross Premium Earned (GPE)	3,752	3,885	4,539
Net Premium Earned (NPE)	2,982	3,453	4,326

Income from Investment	583	847	899
Profit before Tax (PBT)	450	574	500
Profit after Tax (PAT)	782	574	540
Investments	7,585	11,602	15,307
Return on Total Assets (%)	9.83	5.01	3.40
Solvency ratio (times)	1.44	2.63	#

Solvency ratio for FY25 is yet to be valued from actuary and approved from Nepal Insurance Authority.

A: Audited; UA: Unaudited

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