Nepal Micro Insurance Company Limited

Rating

Facilities/Instrument	Amount (Rs. Million)	Rating[1]	Rating Action
Issuer Rating	**NA**	**CARE-NP BB- (Is) [Double B Minus (Issuer Rating)]**	**Assigned**

CARE Ratings Nepal Limited (CRNL) has assigned the issuer rating of 'CARE-NP BB- (Is)' to Nepal Micro Insurance Company Limited (NMIC). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to NMIC is constrained by the short track record of operations of the company having commissioned its operations for one full financial year as on mid-July 2024. Small scale of operations coupled with high administrative cost during the initial year of operation has resulted into underwriting losses; while profitability during FY24 (Unaudited; FY refers to twelve-month period ended mid-July, 2024) was mainly supported by the income from investments. Increase in scale of operations with sustained track record in claims experience is yet to be seen given the short track record of operations. Also, the company's ability to successfully collect insurance premiums at envisaged level remains to be seen. The rating also factors in its solvency margin below the regulatory requirement, competition from other established insurance companies and exposure to regulatory risk.

The rating, however derives strength from experienced board and management team. The rating also takes note of NMIC's moderate geographical coverage through branches, sub branches and agency network. The rating factors in adequate reinsurance arrangement and satisfactory quality of investment book as on mid-July 2024.

Going forward, the ability of the company to successfully increase 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 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 Weaknesses

Small scale and short track record of operations: premium concentrated towards motor insurance

Fiscal Policy (FY22), point number 327 states the establishment of micro insurance company in Nepal targeted towards marginal, low income and deprived sector. So, Nepal Insurance Authority (NIA) introduced Micro Insurance Directive, 2079 on March 27, 2023 with an objective to encourage insurance coverage towards marginal, low-income group and deprived sector community. Following introduction of the directive, four micro non-life insurance companies obtained license during FY23. NMIC commenced its business from May 14, 2023 after obtaining license from Nepal Insurance Authority (NIA) on April 10, 2023. NMIC is the first micro non-life insurance to obtain license from NIA. FY24 was first full year of operations for NMIC. The company reported gross premium earned (GPE) of Rs. 103 Mn during FY24, ~94% of which is contributed by motor insurance and remaining ~6% by property, marine and miscellaneous insurance products. Micro non-life insurance companies cannot exceed the sum assured of Rs 5 Mn for a single policy. Owing to low scale of operations and high administrative cost related to employee benefits and rental charges during initial year of operations,

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

the company reported net underwriting loss during FY24. The reported net profit of Rs. 2.95 Mn during FY24 was supported by income from investments.

Larger scale increases the insurer's capacity to absorb any abrupt high-claim pay-outs caused by any external shocks, compared to relatively small peers. Maintaining adequate reserves is critical to meet the liability related any unforeseen claim payouts, resulting into low to moderate shareholder's return post-transfer. During initial years of operations, operating expenses are high vis-à-vis scale of operations resulting into losses. Profitability is mainly sustained by the income from investments.

Solvency margin below the regulatory requirement in FY23 due to initial year of operations and pending public issuances

NMIC's solvency ratio stood at 0.96x in FY23 against the regulatory requirement of 1.50x. The solvency margin for FY24 is yet to be valued by actuary. The regulatory capital requirement for micro non-life insurance is Rs. 750 Mn, promoters and public share to be maintained at 70:30. Promoters share of Rs. 525 Mn has been infused and company is planning for public issuance of Rs. 225 Mn. Post the public issuance, the investment base will improve resulting in improvement of solvency margins. Also, in case of micro non-life insurance, the insurance coverage and tariff rate for all products (except miscellaneous products introduced by the company) are fixed by NIA. With the government intention to promote the micro insurance among low income and marginalized community, the tariff rate fixed are lower than the general non-life insurance company while the insurance coverage remains the same (limitation of sum assured to Rs. 5 Mn) so, technical reserves to be maintained are high during the initial year of operations until the company ramp up its scale of operations.

Competition from other established insurance companies

NMIC started its operation during FY23 however, had its first full year of operation only during FY24. As on mid-July, 2024 there were 18 non-life insurance companies (including 4 micro non-life insurance companies) operating in Nepal sharing total Rs. 41 Bn of GPE. As of mid-July 2024, five major non-life insurance companies hold about 53% of the market share, making it challenging for new entrants to gain a foothold due to the established track record of these companies. The gross premium collections for NMIC's have different target customer base and GPE are collected through tie up with bank and financial institutions, cooperatives, schools and colleges, health care, automobile companies and showrooms. The sum assured are limited to Rs. 5 Mn for all the insurance policies as a result NMIC is unable to issue the insurance policy for other such as vehicles of high value. Due to a relatively high number of non-life insurance companies present in Nepal, NMIC is expected to face high competition to tap new customers leading to a challenging market dynamic to increase material market share.

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 is low, thus reflecting less insurance reach in Nepal and high growth potential in upcoming years. The regulatory capital requirement for micro insurance companies is Rs. 750 Mn. NMIC has paid up capital of Rs. 525 Mn as on mid-July 2024 and is planning for public issuances to meet the mandatory capital requirement.

Key Rating Strengths

Experienced board and management team

NMIC is promoted by both institutional and individual promoters from different background. NMIC has five members on its board chaired by Mr. Ashish Shrestha. Mr. Shrestha, MBM, has 16 years of managerial experience of automobile sector. CA. Sidhhant Jhunjhunwala, Director, has 6 years of experience in the auditing, business advisory and consulting. Ms. Prabina Dahal, Director, MBA, has 14 years of experience as executive director of National Training and Research Academy. Ms. Latika Golyan, Director, Bachelors of Science, has 10 years of experience as executive position in trading and manufacturing business. The overall operation of the company is managed by Mr. Mrigendra Nath Rimal and associated with company in the capacity of Chief Executive Officer (CEO). He has experience of 26 years in banking, finance and micro credit sector. He is assisted by other experienced team across various functions.

Moderate geographical coverage through branches, sub-branches and agency network

NMIC has geographical coverage through its 10 branches (including head office and province office) and 2 sub branches and agency network of 17 insurance agents as on mid-July, 2024. The branches are spread over 5 Provinces of Nepal. Micro non-life insurance companies normally work on tie up models. Till Mid-July 2024, NMIC has signed the Memorandum of Understanding (MOU) with 18 organization such as bank and financial institution, schools, automobiles company, health care and cooperative organization. The company is planning to redesign the products that fits market to target the marginalized group and further expansion of branches and sub branches in next couple of years to increase its scale of operations. Digitalized platform is available for premium collection and claims payment. Adequate number of branches provides advantage to business growth in terms of marketing, branding and reaching close to customers.

Adequate reinsurance arrangement and satisfactory quality of investment book

NMIC has entered into reinsurance agreement with Nepal Reinsurance Company Limited (NRIC) and Himalayan Reinsurance Limited (HRL) where it cedes 6% of claim amount to each domestic reinsurance company for FY25 as a direct cessation. NMIC has entered into whole account quota share treaty with HRL; 70% (exceeding direct cessation) on each and every policy issued by the ceding company (NMIC) operating in Nepal in respect of all the relevant classes of business as stipulated by NIA excluding motor portfolio and any specific perils coverage policy.

The company had an investment portfolio of around Rs. 484 Mn (inclusive of interest-bearing call accounts) at the end of FY24 (FY23: Rs. 468 Mn). The capital infused and premium collected till date are placed in the form of Fixed Deposits (FD) at different BFI.

About the Company

Nepal Micro Insurance Company Limited (NMIC) is a public limited company, incorporated on December 23, 2022 and operated as Micro Non-Life Insurance Company after obtaining license on April 10, 2023 under the Insurance Act 2079. The Company has commenced its business from May 14, 2023. The registered office of the company is located at Bharatpur-1, Chitwan, Nepal and its provincial office Gairidhara, Kathmandu, Nepal. NMIC has been offering various Micro non-life insurance products & services such as motor, property, burglary micro and personal/group accident insurance as on July 16, 2024. NMIC had paid up capital of Rs. 525 Mn and asset base of Rs. 636 Mn as of mid-July 2024.

Contact Us

Analyst Contact
Ms. Amrita Khadka
Contact No.: + 977-01-4012628/29/30
Email: amrita.khadka@careratingsnepal.com

Mr. Santosh Pudasaini
Contact No.: + 977 9802312855
Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact
Mr. Ananda Prakash Jha
Contact No.: +977 9818832909
Email: anand.jha@careratingsnepal.com

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