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ICRA Lanka Reaffirms the [SL]A rating of Janashakthi General Insurance Limited

ICRA Lanka Limited, subsidiary of ICRA Limited, group company of Moody's Investors Service, has reaffirmed the claims paying ability rating of [SL]A (pronounced SL A) with stable outlook for Janashakthi General Insurance Limited (JGIL or the company). ICRA Lanka has taken a consolidated view of Janashakthi Insurance Company PLC (JIP) along with its wholly owned subsidiary JGIL for arriving at the rating. JGIL was incorporated in the year 2014 and the non-life business of JIP was transferred to JGIL from January 01, 2015. The two entities together is referred as Janashakthi Insurance Group (JIG/"the group").

The rating factors JIG's strong and established market position as the third largest non-life insurer and seventh largest life insurer operating in the country, its experienced and professional management team, prudent underwriting practices and, currently comfortable capitalization profile (risk adjusted capital adequacy for general insurance at 188% and life at 267% in December 2016). The above provides a favorable view on the overall claims paying ability of the company and the group. The rating however is constrained by the highly competitive general insurance industry in Sri Lanka and JIG's higher than industry level concentration towards the motor segment in the non-life business. Following the acquisition, of AIA General Insurance Lanka Limited (AIAG) during 2015 and subsequent amalgamation, JIG has consolidated its position in the non-life business; however, the group's position in the life segment is still moderate. For CY2016 JIG reported a consolidated gross written premium (GWP) of LKR 13.7 Bn reflecting a 28% growth over the previous year; about 78% of the total GWP was contributed to by non-life, while the balance 22% was represented by life insurance. The overall profitability continues to be driven by investment activities, as the underwriting performance of the core non-life insurance segment is moderate. For the CY2016, the group reported a consolidated underwriting surplus (net of management expenses) of LKR 211 Mn, compared to the LKR 72Mn reported in CY2015. The overall combined ratio reported a marginal improvement at 98.2%, vis-à-vis 99.2% reported in the previous year. The rating also factors the moderation of the equity and unit trust exposures in JIG' investment portfolio from 21.8% in December 2015 to 15.3% in March 2017. As overall profitability is supported by investment income, ability to manage the investment portfolio efficiently would be critical for future profitability of the group. Further, the group's ability to maintain a comfortable risk adjusted capitalization profile, in the context of the envisaged GWP growth (at about CAGR of 20%), would be crucial going forward.

As in December 2016, JGIL was the third largest non-life insurer with an estimated market share of 11-12%. During the CY2016, JGIL's GWP crossed LKR 10Bn (LKR 8.1 Bn in CY2015), recording 32% growth compared to the previous year's growth of 19%; the above average growth is largely attributable to the consolidation of the AIAG business. Motor segment accounted for about 66% (69% in 2015 and 70% in 2014) of the total GWP for CY2016, with the remaining 34% was contributed to by fire, marine and miscellaneous sub-classes. Going forward also, motor will continue to dominate the overall non-life segment, however the share in the GWP is expected to moderate over the medium to long term.

JGIL's claims ratio in CY2016 stood at 64% (66% in CY2015), despite the substantial flood related claims and few large fire claims, as these exposers were largely reinsured. During CY2016, JGIL had gross claims of about LKR 3.5 Bn from floods, however the net claims incurred by the company was only LKR 140 Mn. The company expects the potential impact of this year's floods will also be moderate, because of its prudent underwriting and re-insurance policies. The acquisition cost remains range-bound at 14-16% level, while the total expenses ratio remained at about 43-45% over the last few years. The overall underwriting performance was modest with combined ratio at 107% in CY2016, vis-à-vis 106% in CY2015; the overall general insurance industry is characterized by high combined ratios (systemic combined ratio for CY2015 was 99%) due to intense competition in the sector. Going forward, improving the underwriting performance through better risk pricing and expenses management will be crucial from a rating point of view.

Total investment portfolio of JGIL stood at LKR 10.5 Bn in March 2017 compared to LKR 10.4 Bn in December 2016 and LKR 11.1 Bn (including former AIAG portfolio) in December 2015. As on March 31, 2017 treasury backed securities represented about 38% (34% in December 2016 and 36% in December 2015) of the total investments of JGIL, while the equity exposures reduced to 16.7% (18.2% in December 2016 and 23.7% in December 2015). Remaining exposures consisted of investments in bank deposits and corporate debt securities (42.3% in March 2017 and 45.1% in December 2016) and investments in mutual funds (about 3% of the total portfolio in March 2017 and December 2016). As the overall profitability of non-life insurance is largely supported by investment income, ability to manage the investment portfolio efficiently would be critical for future profitability of the company.

As in March 31, 2017 the risk weighted capital adequacy of JGIL stood at 194% (188% in December 2016 and 171% in December 2015), well above the regulatory minimum of 120%. Based on the rather moderate growth outlook expected for non-life business, capitalization profile of the company is expected to remain comfortable, in the short – medium term.

Company Profile

Janashakthi Insurance Company PLC was initially incorporated in Sri Lanka as Janashakthi Life Insurance Co. Ltd (Janashakthi Life), a public company with limited liability in 1992. JIP began its operations in September 1994, as Sri Lanka's first specialized life insurer and ventured into Non-Life Insurance through Janashakthi General Insurance Co Ltd (Janashakthi General), which was established in 1995. JIP and Janashakthi General were merged in 2000 to form JIP. JIP acquired National Insurance Corporation Ltd in 2001, and later diversified into other areas of financial services. JIP was the 3rd largest general insurer and 7th largest life insurer in Sri Lanka in Dec-14. Janashakthi General Insurance Limited (JGIL) was incorporated as a wholly owned subsidiary of JIP during 2014 and, JIP transferred the non-life business to JGIL from January 01, 2015, thus complying with the regulatory requirement. JIP fully acquired AIA General Insurance Lanka Limited during 2015 and merged it with JGIL during January 2016.

Recent Results

During the year ended December 2016, JGIL reported a net profit of LKR 1,013 Mn on a gross written premium of LKR 10,609 Mn, compared to the net profit of LKR 661 Mn on a gross written premium of LKR 7,699 Mn for the 12 month period ended December 2015. During the 3M ending March 2017, JGIL reported a net profit of LKR 180 Mn on a gross written premium of LKR 3,084 Mn

During the year ended December 2016, JIP reported a consolidated net profit of LKR 1,647 Mn on a gross written premium of LKR 13,651 Mn, compared to the net profit of LKR 951 Mn on a gross written premium of LKR 10,664 Mn for the 12 month period ended December 2015. During the 3M ending March 2017, JIP reported a consolidated net profit of LKR 217 Mn on a gross written premium of LKR 3,789 Mn

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For further details please contact:

Analyst Contacts:
Mr. Karthik Srinivasan, (Tel No. +91-22-61143444)
karthiks@icraindia.com

Relationship Contacts:
Mr.W. Don Barnabas, (Tel. No. +94-11-4339907)
wdbarnabas@icralanka.com

Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE
Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka
Tel: +94 11 4339907; Fax: +94 11 2333307
Email: info@icralanka.com; Website: www.icralanka.com