

ICRA Lanka assigns the Insurance Financial Strength rating of [SL]BBB to Sanasa Life Insurance Company Limited

March 22, 2021

Instrument	Rated Amount (LKR Mn)	Outstanding Amount (LKR Mn)	Rating Action
Insurance Financial Strength rating	N/A	N/A	[SL]BBB (Stable); Assigned
Proposed Senior Unsecured Redeemable Debenture programme	200	200	[SL]BBB (Stable); Assigned

Rating action

ICRA Lanka Limited has assigned the Insurance Financial Strength Rating of [SL]BBB (pronounced as S L triple B) with Stable outlook to Sanasa Life Insurance Company Limited (hereafter referred to as SLICL or “the Company”). ICRA Lanka has also assigned the issue rating of [SL]BBB (pronounced as S L triple B) with Stable outlook to the proposed LKR 200 Mn senior, unsecured, redeemable debenture programme of the Company.

Rationale

The ratings factor in the Company’s risk-based capital adequacy ratio (CAR) which stood at 188% in December 2020 (above the regulatory minimum of 120%), whilst the Total Available Capital stood at 722 Mn (regulatory minimum of LKR 500 Mn). The proposed debenture issue of LKR 200 Mn is expected to further augment the capital profile. The ratings also factor in SLICL’s gross written premium (GWP) growth which stood at 3.1% and 15.7% in FY2019 and FY2018, respectively, vis-à-vis the industry average growth of 10.6% and 12.2% in the same periods. In the twelve months ended December 31, 2020, the GWP grew further by 29.3%, despite the impact of Covid-19 as SLICL was on an expansion drive. The ratings take note of the improvement in the claims ratio which reduced to 15.2% in FY2020 in comparison to 30.1% in FY2019 and 70.2% in FY2018. The Company had an underwriting loss (including management expenses) of LKR 66 in FY2020 (LKR 150 Mn in FY2019 and LKR 281 Mn in FY2018), which was offset by its investment income of LKR 144 Mn. In FY2020, the Company was able to report a net profit of LKR 23.6 Mn with a RoE of 2.1%. The ratings also consider the support received (financial and technical) from globally reputed affiliates, such as International Finance Corporation (a member of the World Bank group), in the past. Further, ICRA Lanka is cognizant of the support received from the Sanasa movement in Sri Lanka, which has been the founding base of the Company over the past 30 plus years.

The ratings note the Company’s market share of around 1% and expected growth plan (50% in FY2021 and 20% in the subsequent two years). Going forward, ability of SLICL to further improve its underwriting profile and maintain healthy solvency and earnings whilst carrying out its expected expansion, would be crucial from ratings perspective.

Outlook: Stable

ICRA Lanka believes that SLICL’s current solvency and earnings profile supports its medium-term growth plan. The outlook may be revised to ‘Positive’ in case of steady improvement in the earnings, business performance indicators and capitalization of the Company in the future. The outlook may be revised to ‘Negative’ in case of deterioration in the earnings and solvency of the Company.

Key rating drivers

Credit strengths

Low life insurance penetration to support future growth: The life insurance industry in Sri Lanka is largely underpenetrated compared to regional peers. In CY2019, penetration ratio of the life insurance business was recorded at 0.59% of GDP (CY2018: 0.56%). Life insurance penetration rates for Sri Lanka's peer countries are as follows: India (2.82%), Philippines (1.18%), Indonesia (1.41%), and Vietnam (1.43%). Hence, positive growth outlook is expected over the longer term as the Sri Lankan life insurance industry would benefit from favourable macro factors such as increasing disposable income, increasing demand for private sector healthcare, as well as the growing consumer awareness of insurance.

Moderate risk profile of the investment portfolio: Investment income has supported the underwriting profile of the company in recent years. The total investment book stood at LKR 1,369 Mn in Dec-20, vis-à-vis LKR 1,319 Mn in Dec-19 and LKR 1,457 Mn in Dec-18. As in Dec-20, government securities comprised of 33.4% (39.1% in Dec-19) of the investment portfolio, while equity comprised of 12.5% (6.2% in Dec-19) and other fixed income investments including fixed deposits represented 49.6% (50.0% in Dec-19). The high composition of fixed income investments (representing 84.1% of the investment portfolio in Dec-20), enables the Company to maintain a low market risk profile. The Net Investment Income/NPE reduced to 17.6% in FY2020, compared with 26.2% in FY2019 and 32.1% in FY2018, mainly due to the falling interest rate environment. Ability of the management to maintain its investment book effectively going forward, would be a key monitorable.

Adequate capital profile: The Company's Risk Based Capital Adequacy Ratio (CAR) stood at 188% in Dec-20 vis-à-vis 182% in Dec-19; same is above the regulatory limit of 120%. The Total Available Capital stood at LKR 722 Mn in Dec-20 (LKR 711 Mn in Dec-19), above the regulatory minimum of LKR 500 Mn. Going forward, further capital may be required in order to support the company's three-year growth plan (an estimated 50% growth in FY2021 and 20% in the subsequent years). The company expects to issue a LKR 200 Mn debenture in April 2021, which would further improve its capital profile.

Improvement in underwriting profile: Company's claims ratio reduced to 15.2% in FY2020 vis-à-vis 30.1% in FY2019 and 70.2% in FY2018 due to the curtailment of lesser profitable products. The expense ratio (comprising of acquisition costs and management expenses) stood at 94.2% in FY2020 vis-à-vis 99.1% in FY2019 (86.8% in FY2018). Hence, the company was able to generate a lower underwriting deficit (including management expenses) of LKR 66 Mn in FY2020, compared with the LKR 150 Mn and LKR 281 Mn in FY2019 and FY2018, respectively. In FY2020, SLICL earned a net profit of LKR 24 Mn on a standalone basis, with a RoE and RoA of 2% and 1%, respectively.

Credit challenges

Small market footprint limits scale advantages: The Company held a modest market share of about 1% in December 2019. However, in the past fiscal management undertook a fresh business expansion initiative, reaching out to Sanasa movement members and those outside Sanasa. The expansion drive led to a GWP growth of 29.3% in FY2020, compared with the 3.1% growth in FY2019 (FY2018: 15.7%). Deployment of an online platform in the near term may also be effective in driving business growth. However, ICRA Lanka notes that SLICL is a small player against relatively larger peers who have already achieved considerable scale advantages.

Analytical approach: For arriving at the ratings, ICRA has applied its ratings methodologies as indicated below: **Links to applicable criteria:** [ICRA Lanka's Insurance Financial Strength Rating Methodology](#)

About the Company:

Sanasa Life Insurance Company Limited (SLICL)

The Company is primarily a provider of micro insurance. The process of the formation of SLICL took place in 1989, when an NGO called 'Forum of Development' (FOD) conducted a survey to identify the more popular voluntary organizations in the Kegalle District in Sri Lanka. It was a project designed to promote development skills of voluntary organizations. It was revealed in the survey that Funeral Aid Societies (FAS) were the most popular and active organizations at the village level, with a high degree of participation due to their needs based approach of providing assistance. It was further revealed the FAS were strong with well- built funds.

In light of this information, representative of FAS were motivated by FOD to design and implement an insurance scheme of their own. The insurance scheme designed by them was named "Ahethuka Wipath Awarnaya" (risk coverage against unfortunate perils). The Scheme was inaugurated in October 1991 with a participatory membership of 182 members of Sanasa Societies and Funeral Aid Societies (FAS). With the passage of time the number of participants of this scheme increased so rapidly, that Sanasa decided to set up Sanasa Insurance Limited and obtained a license to operate Life Insurance business in 2003 and to operate General Insurance in 2005. In July 2019, the Company was segregated into two entities (Life and General) following the due process stipulated by the Insurance Regulatory Commission of Sri Lanka (IRCSL). The General Insurance Business was transferred to its newly formed subsidiary, Sanasa General Insurance Limited (SGI). Accordingly, SLICL is currently solely a Life Insurance company as well as the holding company of SGI.

During the year ended December 2020, SLICL reported a net profit of LKR 23.6 Mn on a gross written premium of LKR 694.4 Mn, compared to the net profit of LKR 52.9 Mn on a gross written premium of LKR 1,020.0 Mn (including the non-life segment six month premium) in the 12 month period ended December 2019.

Key financial indicators of SLICL (Standalone Company) - Unaudited

LKR Mn	FY2019**	FY2020
Gross Written Premium (GWP)*	1,020.0	694.4
Net Earned Premium (NEP)	901.5	668.9
Underwriting Surplus/Loss	471	496
Profit After Tax (PAT)	52.9	23.6
Reported Net Worth	1,170.4	1,084.3
Net Claims Ratio	30.1%	15.2%
Acquisition Cost Ratio	7.2%	10.1%
Management Expense Ratio	91.9%	84.1%
Combined Ratio	129.2%	109.4%
Capital Adequacy Ratio	182%	188%

* The life segment GWP stood at LKR 537 Mn in FY2019. ** FY2019 - audited figures

Note: The life and general insurance business divisions of the Sanasa Insurance Company Limited were segregated in July 2019. Hence, the above table contains the 6M performance of the general insurance company up to June 2019.

Key financial indicators of SLICL (Consolidated) - Unaudited

LKR Mn	FY2019*	FY2020
Gross Written Premium (GWP)	1,455.0	1,565.5
Net Earned Premium (NEP)	1,332.7	1,527.3
Underwriting Surplus/Loss	662.7	961.5
Profit After Tax (PAT)	105.9	118.2
Reported Net Worth	1,200.0	1,154.5
Net Claims Ratio	41.7%	27.0%
Acquisition Cost Ratio	8.5%	9.7%
Management Expense Ratio	70.0%	71.3%
Combined Ratio	120.2%	108.3%

*FY2019 - audited figures

Rating history for last three years:

Instrument	Chronology of Rating History for the past 3 years				
	Amount Rated (LKR Mn)	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
		Mar-21	Feb-21		
Insurance Financial Strength Rating	N/A	[SL] BBB (Stable)	[SL] BBB (Stable); assigned	NA	N/A
Senior Unsecured Redeemable Debenture programme	200	[SL] BBB (Stable); assigned	N/A	N/A	N/A



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