

## ICRA Lanka reaffirms the ratings of Sanasa Life Insurance Company Limited

May 05, 2022

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

### Rating action

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

### Rationale

The ratings factor in SLICL’s robust gross written premium (GWP) growth of 60.1% and 29.3% in FY2021 and FY2020, respectively, vis-à-vis the industry average growth of 20% and 16% in the same periods. The ratings note the higher claims ratio of 24.4% in FY2021 in comparison to 15.7% in FY2020 largely due to the escalation in the pandemic situation in the country. However, the expenses ratio (inclusive of commissions and management expenses) stood at 67.9% in FY2021 vis-à-vis 84.1% in FY2020, due to lower operating expenses. In FY2021, the Company incurred an underwriting gain (excluding management expenses) of LKR 764.6 mn (underwriting gain of 529.8 Mn in FY2020 and LKR 149 Mn in FY2019), which was further strengthened by its investment & other income of LKR 220 Mn. The ratings also factor in the healthy earnings with net profits of LKR 103.1 Mn in FY2021 and LKR 25.8 Mn in FY2020; RoE stood at 9.0% and 2.3% in the same two periods respectively. Moreover, 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 are constrained by the moderate capital profile with the risk-based capital adequacy ratio (CAR) at 169% in December 2021 (198% in December 2020), against the regulatory minimum of 120%. Further, the expected growth plan (60% in FY2022 and 30% in the subsequent two years) is expected to lay some pressure on its capital profile. Going forward, the ability of SLICL to further improve its underwriting profile and maintain healthy solvency and earnings, 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. 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:** Life insurance industry in Sri Lanka is largely underpenetrated compared to regional peers. In CY2020, the penetration ratio of the life insurance business was recorded at 0.6% of GDP. However, life insurance penetration rates in peer countries such as India (3.2%), Philippines (1.2%), Indonesia (1.4%), and Vietnam (1.6%) were higher, reflecting the growth potential in the Sri Lanka market. Over the medium to long term, the industry is expected to benefit from favourable macro factors such as increasing consumer disposable income and demand for private sector healthcare.

**Above industry average GWP growth, leading to higher market share:** SLICL demonstrated a robust GWP growth of 60.1%YoY in FY2021 and 29.3% YoY in FY2020, whereas the overall industry growth stood at 20% and 16% in the same periods, respectively. Historically, SLICL focused mainly on the rural communities given its links to the Sanasa Movement. However, in recent years the Company has reached out to new customer segments outside Sanasa. Consequently, the market share of the company increased to 1.00% in Dec-21 from 0.67% in FY2020 and 0.61% in FY2019. Nonetheless, in the context of the current economic crisis in the country, with IMF involvement and substantial debt restructuring, ICRA Lanka envisages that the GDP growth may slow-down in the medium term; same may impact the growth prospects of the life insurance industry.

**Healthy earnings profile:** The company's claims ratio stood higher at 24.4% in FY2021 vis-à-vis 15.7% in FY2020 due to pandemic induced conditions. The expenses ratio (comprising of both commissions and management expenses) reduced to 68% in FY2021 from 84% in FY2020, mainly due to lower operational expenditure as the company completed setting up its branch network as a standalone life insurer (the segregation of the general insurance subsidiary took place in CY2019). Overall, the company reported a net profit of LKR 103 Mn in FY2021 (net profit of LKR 26 Mn in FY2020) with a RoE and RoA of 9.0% and 4%, respectively (RoE and RoA stood at 2.3% and 1.1%, respectively, in FY2020).

### Credit challenges

**Moderate solvency indicators compared to peers:** The Risk Based Capital Adequacy Ratio (CAR) stood at 169% in Dec-21 against the regulatory minimum of 120%; CAR in Dec-20 and Dec-19 stood at 198% and 182%, respectively. The Company raised Tier 2 capital via a debenture issue of LKR 200 Mn in April CY2021, which improved its capitalization. Purpose of issuing the debenture was also to obtain a listing in the Colombo Stock Exchange in line with regulatory requirements. ICRA Lanka notes that additional capital may be needed to fund the company's three year growth plan (an estimated 60% YoY growth in FY2022 and 30% in subsequent years). However, SLICL intends to depend on internal generation to fund its expansion. It also has the option of raising fresh capital through shareholders, if needed.

**Moderately risky investment portfolio:** Investment income has supported the underwriting profile in recent years. The total investment book stood at LKR 2.2 Bn in Dec-21, vis-à-vis LKR 1.7 Bn in Dec-20 and

LKR 1.6 Bn in Dec-19. As in Dec-21, government securities comprised of 15.2% (27.3% in Dec-20) of the investment portfolio, while equity inclusive of share investments in subsidiaries comprised of 18.3% (14.1% in Dec-20), and other fixed income investments represented 49.5% (40.5% in Dec-20). ICRA Lanka notes that the share of government securities is fairly low in SLICL's investment book, compared with the industry average of about 40-45%. Further, company has increased its exposure to corporate debt (17.3% in Dec-21 vis-à-vis 4.0% in Dec-20), which increases the credit risk of the portfolio. Going forward, the ability of management to maintain its investment book effectively, would be a key monitorable

**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, representatives 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 in 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 2021, SLICL reported a net profit of LKR 103.1 Mn on a gross written premium of LKR 1,111.9 Mn, compared to the net profit of LKR 25.8 Mn on a gross written premium of LKR 694.4 Mn in the 12 month period ended December 2020.

### Key financial indicators of SLICL (Standalone Company) - Audited

LKR Mn	FY2020	FY2021
Gross Written Premium (GWP)	694.4	1,111.9
Net Earned Premium (NEP)	668.9	1,083.1
Underwriting Surplus/Loss*	529.8	764.6
Profit After Tax (PAT)	25.8	103.1
Reported Net Worth	1,092.5	1,196.3
Net Claims Ratio	15.7%	24.4%
Acquisition Cost Ratio	10.1%	10.1%
Management Expense Ratio	84.0%	67.9%
Combined Ratio	99.7%	92.0%
Capital Adequacy Ratio	198%	169%

\* Underwriting surplus/deficit excludes management expenses. \*\* The fiscal year end is as of December

### Key financial indicators of SLICL (Consolidated) - Audited

LKR Mn	FY2020	FY2021
Gross Written Premium (GWP)	1,565.5	2,002.0
Net Earned Premium (NEP)	1,527.4	1,840.8
Underwriting Surplus/Loss	927.0	1,067.9
Profit After Tax (PAT)	118.4	129.4
Reported Net Worth	1,515.9	1,637.6
Net Claims Ratio	27.4%	29.0%
Acquisition Cost Ratio	9.7%	10.0%
Management Expense Ratio	71.3%	72.1%
Combined Ratio	98.6%	101.1%

### Rating history for last three years:

Instrument	Type	Current Rating (CY2022)			Chronology of Rating History for the past 3 years			
		Amount Rated (LKR Mn)	Amount Outstanding (LKR Mn)	Date & Rating	Date & Rating	Date & Rating	Date & Rating	
Insurance Financial Strength rating	N/A	N/A	N/A	Apr 2022 [SL]BBB; (Stable)	Mar 2021 [SL]BBB; (Stable)	N/A	N/A	
Senior Unsecured Redeemable Debenture programme	N/A	200	200	[SL]BBB; (Stable)	[SL]BBB; (Stable)	N/A	N/A	



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