ICRA Lanka revises the rating of Janashakthi Insurance PLC;

November 09, 2018

Summary of rated instruments

Instrument	Rated Amount (LKR Mn)	Rating Action
Insurance financial strength rating[1]	N/A	Revised to [SL]A- with Stable outlook from [SL]A. Watch with negative implications removed

Rating action

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has revised the insurance financial strength rating of Janashakthi Insurance PLC to [SL]A-(pronounced SL A minus) from [SL]A (pronounced SL A) . The watch with negative implications has been removed and the outlook has been revised to stable.

Rationale

JIP has divested its general insurance subsidiary, Janashakthi General Insurance Limited (JGIL), in February 2018, and currently operates as a standalone life insurer. Prior to the divestment, JGIL accounted for 81%of the consolidated gross written premium (GWP) of JIP in CY2017 (78% in CY2016), and approximately 48% of the consolidated net profit before tax (72% in CY2016). ICRA Lanka notes that JIP's financial and business risk profile has weakened following the divestment of JGIL, which has been factored into our rating action. The rating factors in the comfortable capitalisation and experienced senior management team of the company, which is expected to support business growth going forward. The rating takes note of the increase in the investment in equity and property, which together accounted for 25.7% of the total investment in June 2018. Ability to divest the same in a timely manner would be crucial from a solvency and liquidity perspective, going forward. ICRA Lanka takes note of the moderate business performance indicators and subdued underwriting performance of JIP during CY2017, however the net profit was supported by the transfer of one-off surplus amounting to LKR 1,796 Mn and the investment income of LKR 1,328 Mn. Going forward, ability to scale-up operations while keeping control on the expense ratio would be crucial for incremental earnings.

Outlook: Stable

ICRA Lanka believes that JIPs's current solvency profile would support near to medium term growth. The outlook may be revised to 'Positive' in case of steady improvement in the earnings, business performance indicators and solvency of the company. The outlook may be revised to 'Negative' in a significant weakening in solvency or profitability of JIP.

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[1] Was formerly known as Claims Paying Ability rating. Insurance Financial Strength rating (IFSR) is ICRA Lanka's opinion on the financial strength of the rated insurer and its ability to honour policy- holder claims and obligations on time. ICRA Lanka's IFSRs is a comprehensive analytical process that examines the industry dynamics, the regulatory environment, and the business fundamentals of the life insurance company concerned, its competitive position within the industry, and its financial strength. ICRA Lanka's IFSRs are essentially forward looking and attempt to assess the company's ability to withstand stress and meet policyholder liabilities.

Key rating drivers

Credit strengths

Experienced management team – Factored into the rating is the wide ranging experience of the management team as well as the active involvement of the promoters in the company. Management team, including the chief executive officer continue, post divestment of the general insurance business. In addition, promoters of the company are expected to continue to be directly involved in operations management as well as strategic decision making. ICRA Lanka envisages the greater management bandwidth and focus in the life insurance business going forward, to support growth and future performance of the company.

Comfortable risk adjusted capitalization –JIP's risk weighted capital adequacy stood at 284% (241% in December 2017), well above the regulatory minimum of 120%. The comfortable capital profile would support near to medium term growth plans.

Credit challenges

Relatively modest franchise in life insurance segment – JIP recorded a 1.4% decline in GWP in CY2017 compared to the 15.4% growth in CY2016; whereas overall life insurance industry growth stood at 13%and 18%, respectively during the above mentioned periods. Ability of the company to grow in the life insurance sector considering its currently modest franchise would be crucial going forward. ICRA Lanka however takes note of the modest life insurance industry penetration of 0.54%in CY2017 (0.53% in CY2016), which is expected to provide adequate scope for growth of JIP.

Moderate business performance indicators – JIP's overall average premium stood at LKR 21,000 in CY2017; lower compared to industry averages and that of similar sized life insurance companies. Further, 12-month premium persistency of 71%for the six months ended June 2018 (74% in CY2017), was also lower than peers. ICRA Lanka expects the business performance indicators to improve going forward, with the renewed management focus and initiatives taken in the digital and alternative sourcing channels.

Significant exposure to equity investments – JIP's investment portfolio stood at LKR 15.8Bn in June 2018 compared to LKR 12.4Bn in December 2017 and LKR 11.1Bn in December 2016. As of June 2018, treasury backed securities represented about 38.7% (44.9% in December 2017 and 40.4% in December 2016) of the total investments of JIP, while the equity exposure had increased to 16.7% in June 2018 (from 4.3% in December 2017 and 5.2% in December 2016). ICRA Lanka is cognizant that the significant rise in equity exposure increases the market risk profile of the investment portfolio. Also, investment in land (11.7% of total investment in June 2018) would need to be divested of in a timely manner, to further improve liquidity. Going forward ability of the company to manage its investment book effectively would be a monitorable.

Subdued financial performance - For the CY2017, the company recorded a GWP of LKR 2.90 Bn, compared to the LKR 2.94 Bn recorded in CY2016; GWP as of June 2018 stood at LKR 1.4Bn. ICRA Lanka notes that the company's claims ratio increased to 39.9% in CY2017, compared to 38.7% in CY2016, while the expenses ratio rose to 47.8% during the same period from 46.5% in the previous year. This has resulted in an increase in the combined ratio to 87.7% in CY2017 from 85.2% in CY2016. JIP reported a profit before tax (PBT) of LKR 1,692 Mn in CY2017, compared to a PBT of LKR 953 Mn in the previous year. The profit in CY2017 was largely supported by the transfer of the one-off surplus (amounting to LKR 1,796 Mn), kept in the life fund following the implementation of the Risk Based Capital regime in 2016, to the shareholders fund during the year. PBT for the six months ended June 2018 stood at LKR 9,165 Mn, supported by the LKR 9,199 Mn gain from disposal of general insurance subsidiary.

During CY2017, JIP reported an underwriting surplus (net of management expenses) of LKR 344 Mn (LKR 423 Mn in CY2016), whereas for the six months ended June 2018, company made an underwriting loss of LKR 386 Mn, mainly on account of a one-off employee bonus of LKR 228 Mn that was paid. However, the modest underwriting performance has been supported by the total investment income of LKR 1,328 Mn in CY2017 (LKR 1,277 Mn in CY2016), and LKR 754 Mn for the six months ended June 2018.

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

Company Profile:

Janashakthi Insurance PLC
Janashakthi Insurance Company PLC was initially incorporated in Sri Lanka as Janashakthi Life Insurance Co. Ltd, 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, a composite insurance player. 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-17. 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. In February 2018, JIP divested JGIL to Allianz SE. Having completed the divestment, JIP now operates as standalone life insurance company.

Recent Results

During the year ended December 2017, JIP reported a stand-alone net profit of LKR 1,692Mn on a gross written premium of LKR 2,903 Mn, compared to the net profit of LKR 953 Mn on a gross written premium of LKR 2,944 Mn in the 12 month period ended December 2016. During the 6M ending June 2018, JIP reported a stand-alone net profit of LKR 9,165 Mn on a gross written premium of LKR 1,445 Mn, mainly from a capital gain of LKR 9,199Mn from the sale of its general insurance subsidiary during the year.

During the year ended December 2017, JIP reported a consolidated net profit of LKR 2,540 Mn on a gross written premium of LKR 15,115 Mn, compared to the net profit of LKR 1,647 Mn on a gross written premium of LKR 13,651 Mn for the 12 month period ended December 2016. During the 6M ending June 2018, JIP reported a consolidated net profit of LKR 7,312 Mn on a gross written premium of LKR 1,445 Mn.

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