



Lanka Rating Agency

Rating Report

Sanasa Life Insurance Company PLC

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Aug-2023	BBB (ifs)	-	Positive	Initial	-

Rating Rationale and Key Rating Drivers

Sanasa Life Insurance Company PLC (herein referred to as "SLC" or "the Company") operates with a large customer base as a provider of microinsurance to the Sanasa Societies as well as individual and corporate customers. SLC mainly focuses on providing insurance services to members of SANASA societies island-wide and individual and corporate of whom the majority are in the rural sector. SLC has a unique position especially amongst the lower and middle-income groups and the rural masses, being the Insurance company that provides, affordable and flexible insurance, catering to their special insurance requirements. The rating factors in SLC's robust Gross Written Premium (GWP) growth of ~131% in CY22 to LKR~2,568mln from LKR~1,111mln in CY21, respectively, vis-à-vis the industry average growth of ~8.5% in the same period. SLC's GWP mostly consists of society income. The Company has also reached out to new customer segments outside Sanasa. Consequently, the market share of the company increased to ~2% in CY22 from ~1% in CY21. Also, the Company has recorded net underwriting surpluses throughout the years supported by premium growth. The net underwriting surpluses increased from LKR~764mln in CY21 to LKR~1,100mln in CY22. The claims ratio of the Company, however, climbed to ~51% in CY22 as compared to ~24% in CY21. Increase in market share along with reducing claim ratio remains crucial. The investment book of the Company stood at LKR~1,695mln in CY22, vis-à-vis LKR~1,794mln in CY21; investment strategy reflects inclination towards government securities, as investments in government securities have increased rapidly in CY22 with a share of ~33% of the total portfolio. Going forward, effective investment & liquidity management would be a key monitoring factor for the rating. SLC's capital adequacy is deemed average; it was maintained above the minimum of ~120% and stood at ~257% in CY22. Sustenance of adequate capital amid increasing business volumes would remain critical.

The rating is dependent upon sustained improvement in the business and financial risk profile of the Company. The strong solvency profile of the Company, indicated through its ample reserves, places comfort in the rating. An improvement in investment performance and capital generation would be considered positive for the ratings and vice versa.

Disclosure

Name of Rated Entity	Sanasa Life Insurance Company PLC
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Life Insurance Rating(Mar-23)
Related Research	Sector Study Life Insurance(Jun-22)
Rating Analysts	Tharika Prabashwari Kodikara tharika@lra.com.lk +92-42-35869504



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Profile

Legal Structure Sanasa Life Insurance Company PLC ("SLC" or "the Company") is registered under the name of Seemasahitha Sanasa Rakshana Samagama as a public limited liability company in 2006, and was incorporated in Sri Lanka under companies act No 17 of 1982 and re-registered under the companies act No 07 of 2007 in 2008. SLC got listed on Colombo Stock Exchange in 2021.

Background In 1989, several surveys were conducted by "Forum of Development – FOD". As a result a mutual organization named All Lanka Mutual Assurance Organisation (ALMAO) was inaugurated in 1991. ALMAO was re-named as Seemasahitha Sanasa Rakshana Samagama in 2006. Sanasa obtained the license to operate as a long-term insurance provider in 2003 and to provide General Insurance in 2005. In 2019, these two business were segregated and Seemasahitha Sanasa Rakshana Samagama, re-named as Sanasa Life Insurance Company Limited, continued to provide life insurance business, and a separate company, Sanasa General Insurance Company Limited was incorporated as a subsidiary of SLC to carry on general insurance business.

Operations SLC operates with a large customer base as provider of micro insurance to the Sanasa Societies as well individual and corporate customers. SLC has 172 branches island-wide across 9 provinces. Sanasa societies currently include 8,000 primary societies. SLC owns 3 subsidiaries Sanasa General Insurance company Limited (60%), Sanasa Media Networks (Pvt) Ltd (91%) and Sanasa Greenmart (Pvt) Ltd (64%) as well as an Associate named Sanasa Security Services (Pvt) Limited (49%).

Ownership

Ownership Structure The largest shareholding of the company is with Senthilverl Holdings (Pvt) Ltd with an ownership of 19%. Sanasa Societies hold 52% which comprises 500+ individual societies in 20 districts.

Stability Senthilverl Holdings (Pvt) Ltd which is a private limited liability company incorporated in 2017 which is owned by Dr. Thirugnanasambandar Senthilverl who also a member of Board of SLC. The principal activity of the company is to act as a specialized investment vehicle to undertake listed equities and earn income from investments.

Business Acumen Sanasa societies are people-oriented service organisations based on a cooperative philosophy to identify the need and wants of the people and resolve their problems. Having society members in the shareholding structure, it implies that, Industry specific working knowledge and the deep understating of the society system are in place.

Financial Strength Sanasa Societies and other shareholders are not responsible for the finance aspect of the SLC and they are not willing to provide timely and comprehensive capital support.

Governance

Board Structure The overall control of the Company vests in the Eight Board of Directors, Except the MD, others are non-executive Directors. Out of 8 directors, 6 of them are elected as representative of Sanasa Movement and balance are Independent.

Members' Profile Dr. H J S K Wickremarathne served as an independent Director and was appointed to the board in 2017. He was appointed as the Chairman of the Company in June 2022 and retired with effect from 08th April 2023. Mr. I K Kiriwadeniya has been appointed to the Board of Directors as the Managing Director with effect from 01/01/2023. He represents the board at a strategic level and not involving in the operational decisions.

Board Effectiveness The board has seven sub-committees in place. Nomination Committee, Human Resources & Remuneration Committee, Investment Committee, Audit Committee, Research & Business development Committee, Risk Management Committee and Related party transaction Committee.

Financial Transparency An unqualified opinion on the financial statements of CY22 was given by the Auditor Ernst & Young.

Management

Organizational Structure SLC operates through a well-defined organizational structure. The highest level of authority remains with the Chairman and BOD.

Management Team The CEO, Mr Ivan Nicholas who has over 3 years of experience at SLC and directly reports to the BOD. The Management Team is headed by COO, Mr N Gunawardena

Effectiveness There are nine management committees in place, which are directed by Risk Management Committee.

Claim Management System SLC has a separate claims department which is headed by AGM which is a central claim-processing to handles all claims in all branches. These claims are completed within two days but escalated if there are any issues with documentation, which could take longer.

Investment Management Function SLC has an investment policy statement laying down the guidelines for investment. Investment Committee comprises one Independent Non-Executive Director and Two Non-Independent Non-Executive Directors. Asset Liability Management Committee (ALCO) is responsible for managing the solvency margin requirement as prescribed by the IRCSL.

Risk Management Framework SLC has adopted a risk management framework to identify and evaluate potential risk in Insurance, Financial and Operational risk. SLC's board is assisted by the Risk Management Committee consisting of one Independent Non-Executive Director and two Non – Independent Non-Executive directors

Business Risk

Industry Dynamics The industry consists of 28 insurance companies with 14 companies are engaged in life insurance, 12 companies are engaged in general insurance business and 2 are composite companies. The industry GPW grew by 8.51% in CY22 compared to the previous year (CY22: LKR 135Bn, CY21: LKR 124Bn). The PBT amounted to LKR 23,439Mn from LKR 23,130Mn in CY21. Industry Capital Adequacy Ratio is 303% and Capital to Total Asset is 0.21.

Relative Position Ceylinco Life is the largest state insurance company in Sri Lanka with a market share of 21% in CY22. Softlogic Life is the second largest in the Life Segment with a market of 17.62% in CY 21. SLC has captured only 2% market share

Persistency SLC has maintained 81% of customer retention ratio in CY22 and as well as CY21, which reflects that the customer is satisfied with the product and service on an overall basis.

Revenue GPW has improved by 57% in CY22 to ~LKR 2,568.6Mn (CY21: LKR 1,111.9Mn) and LKR 959.4Mn in 3MCY23. GPW mostly consists of society income. NPW grew by 57% to LKR 2,528.5Mn in CY22 compared to a growth of 62% witnessed in CY21. In 3MCY23 it was LKR 948.7Mn.

Profitability SLC reported a net profit of LKR 86Mn in 3MCY23 and LKR 102.5 Mn in CY22. In CY21 it was LKR 139.7Mn. SLC's underwriting results showed a favorable performance of LKR 479Mn in 3MCY23 and LKR 1,100 Mn in CY22 compared to the CY21 which was LKR 764Mn.

Investment Performance The company's investment portfolio has dropped to LKR 1,695Mn as at CY22 from LKR 1,794.7Mn as at CY21. The company's investment portfolio consists of government securities with a share of 33% in CY22.

Sustainability SLC plans to grow its current position in the market while managing sustainable profitability, ensuring consistent improvement in prudent underwriting and risk management.

Financial Risk

Claim Efficiency SLC's claims ratio has increased to 51% in CY22 compared to 24% in CY21. It was 45% in 3MCY23. Net claim settlements increased to LKR 1,302 Mn in CY22 to the CY21 which was LKR 264Mn. The increase was driven by the increase in Maturity claims amounted to 64% of total claims.

Re-Insurance The reinsurance program of the company is diversified to several reinsurers under each plan category. Financial position & the credit ratings of all the reinsurers are in line with the IRCSL guidelines

Cashflows & Coverages The Company's liquid position is deemed strong. Net cash generated from operating activities in the year was positive at LKR 176Mn in CY22 and net cash generated from investing activities also reported a positive outcome of LKR 77Mn in CY22

Capital Adequacy The CAR was maintained above the minimum of 120% and stood at 257% in CY22. It improved from 169% in CY21. TAC of LKR 2.216Mn was reported in CY22 against the required minimum amount of LKR 500Mn and in CY21 it was LKR 790.7Mn



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LKR mln

Sanasa Life Insurance PLC
Listed Public Limited

Mar-23	Dec-22	Dec-21	Dec-20
3M	12M	12M	12M

A BALANCE SHEET

1 Investments	2,683	2,448	2,320	1,923
2 Insurance Related Assets	29	38	34	56
3 Other Assets	483	365	135	168
4 Fixed Assets	209	169	179	161
Total Assets	3,404	3,020	2,668	2,307
5 Underwriting Provisions	1,438	1,203	990	935
6 Insurance Related Liabilities	75	75	101	48
7 Other Liabilities	180	152	105	175
8 Borrowings	325	284	276	57
Total Liabilities	2,018	1,714	1,472	1,215
Equity	1,386	1,306	1,196	1,092

B INCOME STATEMENT

1 Gross Premium Written	959	2,568	1,112	694
2 Net Insurance Premium	949	2,529	1,083	669
3 Underwriting Expenses	(469)	(1,428)	(374)	(173)
Underwriting Results	479	1,100	709	496
4 Management Expenses	(239)	(1,094)	(696)	(547)
5 Investment Income	81	227	166	118
6 Other Income / (Expense)	0	81	16	11
7 Net Change in Reserve for Policyholders' Liabilities	(235)	(213)	(55)	(34)
Profit Before Tax	86	103	140	45
8 Taxes	(6)	(7)	(37)	(19)
Profit After Tax	80	96	103	26

C RATIO ANALYSIS

1 Profitability				
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	44.9%	51.5%	24.4%	15.7%
Combined Ratio (Loss Ratio + Expense Ratio)	74.7%	99.7%	98.8%	107.6%
2 Investment Performance				
Investment Income / Operating Profit	25.1%	97.2%	92.5%	174.5%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims	70.80	77.62	25.66	108.49
4 Capital Adequacy				
Liquid Investments / Equity	1.44	1.41	1.36	1.17

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

Scale	Definition
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
A+ A A-	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
B+ B B-	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.	Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.	Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	Harmonization A change in rating due to revision in applicable methodology or underlying scale.
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit- worthiness of any issuer or a specific issue of securities. (<https://www.sec.gov.lk/index.php/credit-rating-agency/>)

2) Conflict of Interest

i. LRA shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency - 2021)

Restrictions

(3) LRA is not entitled to outsource any part of its work, which has a direct bearing on the act of rating. However, if any other function other than the core function of rating is to be outsourced, such fact shall be brought to the attention of the Client and be included in the Credit Rating Agreement entered into with the Client. (Section 22- Draft Rules Credit Rating Agency - 2021)

(4) LRA cannot appoint any individual as a member of the Rating Committee who has a business development function of the Credit Rating Agency, or who initiates or participates in discussions regarding fees or payments with any Client of Credit Rating Agency. (Section 26- Draft Rules Credit Rating Agency -2021)

Conduct of Business

(5) Prior to the commencement of a rating, LRA does not promise, assure or guarantee to a client that a particular rating will be assigned.

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies shall be made available to the Commission for perusal, upon request. (Section 39- Draft Rules Credit Rating Agency -2021)

Independence & Conflict of interest

(7)LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA's opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity and independence of its ratings.

(8)LRA does not engage in any other business activity which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency -2021)

(9) LRA structures its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 45 - Draft Rules Credit Rating Agency -2021)

Monitoring and review

(10) For purposes of transparency, LRA publishes sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies are also be disclosed. (Section 42- Draft Rules Credit Rating Agency -2021) LRA monitors below factors specifically, (a) all internal records to support our credit rating opinions; (b) all particulars relating to Clients at our office which shall include the name and registered address and contact numbers of such Client's, names and addresses of their Directors as at the date of rating, its issued share capital and the nature of business; and (c) a comprehensive written record of all complaints received from Clients and action taken thereon by LRA.

(11) LRA ensures confidentiality of all information at all times relating to Clients including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law. (Section 48 - Draft Rules Credit Rating Agency -2021)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the LRA which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination. (Section 51 - Draft Rules Credit Rating Agency - 2021).

Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

Proprietary Information

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