

Rating Report
National Life Insurance Company Ltd.
Ratings:

Long Term : **AA₃**
 Date of Rating : **March 24, 2010**
 Validity : **30 June 2010**

Previous Ratings

Long Term : AA₃
 Date of Rating : March 09, 2008

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1.0 RATIONALE

Credit Rating Agency of Bangladesh Ltd. (CRAB) has affirmed **AA₃** (pronounced **Double A three**) rating in the long-term to National Life Insurance Company Ltd.

Life insurance companies rated **AA₃** in long-term belong to "Very Strong Financial Security" cohort, differing only slightly from Insurance Companies rated higher. The rating of National Life Insurance Company (hereafter called the Company or NLICL) has been performed based on the audited financial statements for the year ended 2008, actuarial valuation report as at 31st December 2008 and other relevant information provided by the Company.

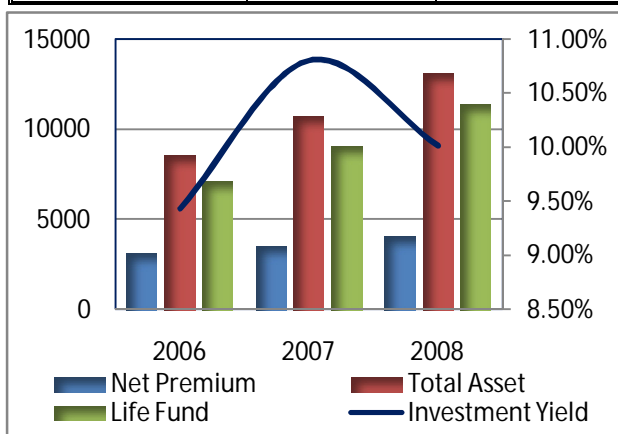
The rating takes into account National Life's operation over the period of 2006 to 2008. From the actuarial valuation conducted in the year 2008 it is revealed that net surplus (after tax) reached at BDT 915.31 million from BDT 745.13 million in 2006 and was available for distribution as bonuses with profit policies and dividend to shareholders. The rating reflects the consistent and high profitability level of the company.

Over the last three years, NLICL's gross premium grew at a moderate rate and reached at BDT 4,069.20 million in 2008 from BDT 3,537.85 million in 2006. NLICL paid BDT 9.51 million as re-insurance premium in 2008, resulting in a net premium of BDT 4,059.69 million registering a growth of 14.87% from

Financial Statement of NLICL

Amount in BDT Million

Particulars	2008	2007
1 st Year Premium	1,024.83	819.07
Renewal Premium	3,010.72	2,685.35
Net Premium	4,059.69	3,534.10
Life Fund	9,082.09	7,135.01
Total Asset	14,201.88	11,634.44
Investment	3,150.47	2,788.30
Net Surplus	915.31	N/A
Paid up capital	93.15	77.63



previous year. NLIICL has reinsurance agreement with Munich re of Germany from 1990. Moreover, it has reinsurance agreement with Asian re – Takaful International (L) Ltd of Malaysia for Islami insurance. Retention limit was BDT 0.30 million per life. NLIICL put more emphasis on micro insurance (around 70% of total premium comes from micro insurance); hence lower the re-insurance premium. Gross premium consists of 1st year premium (fresh underwrite) 25.19% and renewal premium of 74.16%.

The Company had sound growth in life fund and total assets. In 2008, the market share of the Company in respect of life fund was 14.10% and the growth of life fund was 25.57% whereas the industry growth was 29.13%. High yield and cost control during the period helps to build greater life fund. The market share of the Company in respect of total asset was 14.12% and the growth of total asset was 22.09%.

NLIICL invested BDT 10,269.80 million in different instruments i.e. BDT 2,922.00 million (28.45%) in default free government securities, BDT 228.47 million (2.22%) in shares and debentures, BDT 5,913.07 million (57.58%) in fixed deposit of different banks and institutions in different maturity, BDT 544.73 million (5.30%) in property, BDT 92.29 million (0.90%) in policy loan and the rest BDT 569.29 million (5.54%) in others. The investment yield was 10.01% in 2008. The rating draws ease from the good quality asset and high liquidity of the company. The major part of the investment is in liquid assets and around 29.0% of total investment is in default free government security. The liquid asset to life fund was 74.39% in 2008 which reflects its sound liquidity position of the Company.

NLIICL is listed in the capital market and its market capitalization as on 31st December 2008 was BDT 5,301.87 million. Total paid-up capital of the Company was BDT 139.73 million in September 2009 and it fulfils the regularity requirement regarding minimum capital of 75.0 million.

NLIICL was able to reduce the gap of actual and allowable management expense. In 2008, actual expense was BDT 1,309.02 million against allowable expense of BDT 1,337.49 million. In 2006 excess expense was BDT 62.43 million.

As of 31 December 2007, 3,658 numbers of claims were outstanding. During 2008, 22,665 fresh claims amounting BDT 636.70 million were lodged. Amongst which 20,815 claims (amounting BDT 524.65 million) were settled and 626 claims were repudiated. As of 31 December 2008, 4,224 claims were still outstanding. The average new claims incurred for National Life in the last three years is about 78% of its total claims and rest 22% on an average carry-forward from previous year. The claim settlement ratio of NLIICL was 66.58% in 2008. However, claim settlement ratio under death insurance was only 26.42%. On average 60% of its total claims under death claim remained outstanding.

It is observed that lapse rate is very high in the 2nd year of issue. Around 37% of total policies lapsed in the 2nd year of issuance. Lapse trend for the last few years shows that on an average 47% of the policies were lapsed within three years from issuance. However, the



management has informed that they have a plan to reduce the number of lapse policies in the future.

In order to control and manage risk associated with underwriting, NLICL has standard & structured process/guideline which is strictly followed for risk assessment. The analysis found that the company has different tools to mitigate its underwriting risk assessment and devise monitoring tools, such as; process for order to make the risk assessment of compliance issues including privacy and protection of confidential medical information; methods for monitoring compliance with underwriting policies and procedures such as reviews area heads or portfolio management, peer review of policies, for group risks assessment of procedures and systems to ensure the quality of information provided to the company is of a suitable standard, in case of re-insurance, audit of the ceding compliance to ensure the reinsurance assumed is in accordance with treaties in place.