

BEST'S RATING REPORT

HIMALAYAN REINSURANCE LIMITED

Domiciliary Address: Kathmadu District, Kathmandu Metropolitan City, Ward No. 01, Naxal, Nepal

AMB #: 074846

NAIC #: N/A

FEIN#: N/A

Phone:

Fax:

Website: N/A



Best's Credit Rating Effective Date

February 11, 2022

Best's Country Risk Reports Utilized

[Nepal - CRT - 5](#)

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Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Himalayan Reinsurance Limited

AMB #: 074846

Best's Credit Ratings

Financial Strength Rating (FSR)

B
Fair
Outlook: Stable
Action: Assigned

Issuer Credit Rating (ICR)

bb+
Fair
Outlook: Stable
Action: Assigned

Assessment Descriptors

Balance Sheet Strength	Strong
Operating Performance	Adequate
Business Profile	Limited
Enterprise Risk Management	Appropriate

Rating Rationale

Balance Sheet Strength: **Strong**

- Risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), is projected to be at the strongest level for Himalayan Reinsurance Limited's (Himalayan Re) first five years of operations.
- Initial capitalisation of NPR 7 billion (USD 59 million) in paid-up capital is viewed to be supportive of the company's planned growth over its five-year start-up phase.
- Financial flexibility is expected to be enhanced by the company's plan for public listing over the near to medium term.
- The company is expected to maintain a low-risk investment portfolio, with a majority allocation to cash and term deposits, and the remainder mostly in fixed-income securities.
- Exposure to severe catastrophe events is viewed as an offsetting factor to the balance sheet strength assessment, albeit the risk is mitigated in part through the use of retrocession.

Operating Performance: **Adequate**

- As a start-up reinsurer, operating performance is exposed to potential volatility arising from elevated operational risk and business execution risk.
- Underwriting performance is projected to face negative pressure in the early years in part driven by high initial expenses and a lack of business scale, although a gradual improvement is to be expected.
- Underwriting performance will also depend heavily on the company's ability to source good quality domestic business.
- Investment returns, mainly from interest income, are expected to be a key driver of earnings, particularly in the early years.

Business Profile: **Limited**

- As a new domestic reinsurer, the second in the Nepalese market, Himalayan Re lacks an established market position and is expected to face increasing competition as it grows its market share.
- Business growth may benefit from regulatory developments, including a first right of refusal to domestic reinsurance business to domestic reinsurers.
- The underwriting portfolio is expected to show a line of business concentration towards property and engineering risks. In addition, the company will have geographic concentration in Nepal, albeit with gradual diversification planned over time.
- The majority of business is expected to be sourced directly from cedants, with the remainder accessed through brokers, limiting dependence on intermediaries.

Enterprise Risk Management: **Appropriate**

- The enterprise risk management (ERM) framework is viewed to be appropriate, supported by a risk governance structure that has been put in place and risk management policies and procedures, which are expected to be refined over time.
- Risk management capabilities are supported by an experienced management team that has technical expertise and relevant industry experience.
- Business execution risk and operational risk represent key challenges over the start-up phase for the company.
- Heightened natural catastrophe accumulation risk given the lack of sophisticated risk modeling capabilities at present.

Outlook

- The stable outlooks reflect AM Best's expectation that balance sheet strength will remain supportive of a strong assessment over the five-year business plan period, underpinned by risk-adjusted capitalisation, as measured by BCAR, at the strongest level. The company is expected to demonstrate adequate operating performance through executing its business plan to achieve underwriting profitability by the end of its start-up phase.

Rating Drivers

- Positive rating actions could occur if the company can demonstrate successful execution of its business plan and further strengthen its balance sheet strength.
- Negative rating actions could occur if the company materially deviates from its business plan, including adverse deviation from its projections, a significant decline in risk-adjusted capitalisation and/or liquidity level, or if the operating performance no longer supports the current rating level.

- Negative rating actions also could occur if the company's risk management capabilities, governance and controls fail to be aligned with the growing business scale and complexity.

Key Financial Indicators

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	72.0	67.3	63.4	57.3

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2021 NPR (000)	2020	2019	2018	2017
Net Premiums Written:					
Non-Life	164	...	...	...	...
Composite	164	...	...	...	...
Net Income	9,424	...	...	...	...
Total Assets	7,014,747	...	...	...	...
Total Capital and Surplus	7,009,424	...	...	...	...

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2021	2020	2019	2018	2017	Weighted 5-Year Average
Profitability:						
Balance on Non-Life Technical Account	-10,325	...	...	...	...	...
Net Income Return on Revenue (%)	39.6	...	...	...	...	...
Non-Life Combined Ratio (%)	999.9	...	...	...	...	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

The balance sheet strength of Himalayan Reinsurance Limited (Himalayan Re) is assessed as strong, underpinned by risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), which is projected to be at the strongest level for its first five years of operations. Initial capitalisation of NPR 7 billion (USD 59 million) in paid-up capital is viewed to be supportive of the company's planned growth over its five-year start-up phase, and financial flexibility is expected to be enhanced by the company's plan for public listing over the near to medium term.

The company is expected to maintain a low-risk investment portfolio, with a majority allocation to cash and term deposits, with the remainder in fixed-income securities and a small amount of equity investments. Limiting factors to Himalayan Re's balance sheet strength include its sensitivity to risks arising from natural catastrophes, particularly earthquake, albeit the risk is mitigated in part through the use of retrocession.

The company is domiciled in Nepal, which is categorised by AM Best as Country Risk Tier 5 (CRT 5). The impact of the company's exposure to country risk, including economic, political, and financial system risk from Nepal is captured within the overall balance sheet strength assessment.

Capitalisation

Note that the BCAR scores published in this credit report reflect AM Best's expectations of the company's risk-adjusted capitalisation at the end of the fifth year of operations. In addition, the company has a financial year ending 15 July. Financial year 2021 refers to the year ending 15 July 2021.

Risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), is projected to be at the strongest level according to the company's five-year business plan. The company's capital is expected to be supported by full earnings retention for at least the first five years of operations. Additionally, a planned public listing is expected to bolster its capitalisation level. The company expects no dividend payouts and that earnings will be reinvested fully to support business growth during this period. Capital requirements arising from underwriting risk are expected to scale up to a moderate level as the company grows its premium volume, assuming that regulatory developments, including the approval and scope of mandatory cessions to the company, will fall within the range of the

Balance Sheet Strength (Continued...)

company's expectations. Investment strategy is expected to be conservative with a majority allocation to cash and term deposits, and limited exposure to non-rated bonds and equities.

Extreme catastrophe events have the potential to negatively impact the company's capital position when the underwriting portfolio builds up, although the risk is mitigated in part through the use of retrocession.

Capital Generation Analysis	2021 NPR (000)	2020	2019	2018	2017
Net Income	9,424	...	...	...	...
Net Change in Paid-In Capital and Surplus	7,000,000	...	...	...	...
Net Change in Capital and Surplus	7,009,424	...	...	...	...
Ending Capital and Surplus	7,009,424	...	...	...	...

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2021	2020	2019	2018	2017
Liquid Assets to Total Liabilities	999.9	...	...	...	...
Total Investments to Total Liabilities	999.9	...	...	...	...

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

The company's investment portfolio is viewed to be of low risk. Cash and term deposits are expected to form the majority of the company's investment allocation. As at 31 October 2021, a majority of investments are fixed deposits placed with local commercial banks and have tenure not exceeding 15 months, and also come with early withdrawal options. Long-tenure fixed deposits with a tenure of five years make up a small proportion of total investments. However, term deposits bear a modest concentration to Nepal Investment Bank. The company's investment strategy is expected to remain conservative with a majority allocation to cash and term deposits during the first five years of operations, with a relatively limited exposure to non-rated bonds and equities.

Composition of Cash and Invested Assets	2021 NPR (000)	2020	2019	2018	2017
Total Cash and Invested Assets	6,994,205	...	...	...	...
Cash (%)	100.0	...	...	...	...
Total Cash and Unaffiliated Invested Assets (%)	100.0	...	...	...	...
Total Cash and Invested Assets (%)	100.0	...	...	...	...

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

The company determines its reserves in accordance with actuarial valuation directives provided by the insurance regulator of Nepal, Beema Samiti. Insurance contract liabilities include outstanding claims reserves, incurred but not reported (IBNR) reserves as well as unearned premium reserves (UPR).

Liability adequacy tests will be performed at the end of each financial reporting period to ensure the adequacy of premium liabilities. Insurance contract liabilities are expected to be reviewed by external independent actuaries.

Operating Performance

Himalayan Re's operating performance is assessed as adequate.

Underwriting performance is projected to be unprofitable in the early years in part driven by high initial expenses and a lack of business scale, although a gradual improvement is to be expected. Underwriting performance will depend heavily on the company's ability to source good quality domestic business. As a start-up reinsurer, operating performance is exposed to potential volatility arising from elevated operational risk and business execution risk. Nonetheless, overall operating results are expected to remain positive albeit modest throughout the start-up phase, supported by investment income, which is expected to exceed underwriting losses.

Operating Performance (Continued...)

As Himalayan Re is a start-up reinsurer with no track record of operating performance, the loss ratio expectations are benchmarked against the performance of non-life insurers in the domestic market, as well as that of the other domestic reinsurer in recent years. The company's business plan is credible, but is also contingent on regulatory developments, as well as its ability to source profitable business. Downside risk to underwriting performance is expected to be mitigated in part by prevailing insurance tariffs in the primary market, as well as the company's strategic plans to follow established lead terms for various risks including overseas programmes and non-proportional contracts.

The impact of brokerage on its cost structure is viewed to be limited, given that business is expected to be mostly sourced directly from cedants. The management expense ratio is expected to be high in the earlier years given the company's small initial premium base, although it should gradually moderate when the company gains business scale.

Investment returns, mainly from interest income, are expected to be a key driver of overall earnings, particularly in the earlier years.

Financial Performance Summary	2021 NPR (000)	2020	2019	2018	2017
Pre-Tax Income	13,437	...	...	...	...
Net Income after Non-Controlling Interests	9,424	...	...	...	...

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Non-Life Performance:					
Loss and LAE Ratio	1.8	...	...	...	...
Expense Ratio	999.9	...	...	...	...
Non-Life Combined Ratio	999.9	...	...	...	...

Source: BestLink® - Best's Financial Suite

Business Profile

Himalayan Re is assessed to have a limited business profile.

The company was incorporated in July 2021 as the second domestic reinsurer in the Nepalese market. It aims to provide mainly non-life reinsurance as well as a small share of life reinsurance in the domestic market. As a new domestic reinsurer, the second in the Nepalese market, Himalayan Re lacks an established market position and is expected to face increasing competition as it grows its market share. The underwriting portfolio is expected to show a line of business concentration towards property and engineering risks. In addition, the company will have geographic concentration in Nepal, albeit with gradual diversification planned over time.

The senior management team of Himalayan Re includes individuals who have considerable experience in both the domestic and international insurance and reinsurance markets. The CEO has more than 40 years of experience in the insurance and reinsurance industry, and he has served in the capacities of senior executive/independent director roles in General Insurance Corporation of India (GIC Re) / Life Insurance Corporation of India (LIC), respectively. The deputy CEO has more than 30 years of experience in the domestic insurance market and has also served senior executive positions in the Nepal office of Oriental Insurance Company. Other members of the senior management team likewise possess 30 or more years of experience in their areas of expertise.

As a newly established company, premium volumes are currently small. It is foreseeable that market competition could intensify as Himalayan Re grows its market share, although this concern is mitigated in part by the strong reinsurance demand in the domestic market. Business growth may benefit from regulatory developments, including a first right of refusal to domestic reinsurance business, which has been provided to both domestic reinsurers including Himalayan Re, given broader governmental aspirations to promote higher domestic premium retention in the local market. The company is also currently awaiting approval for mandatory cessions, which would bolster business growth if successfully obtained.

Himalayan Re expects facultative business to make up a higher proportion of its business mix in the first one to two years of operations. Subsequently, it will place an emphasis on writing mainly proportional treaties as well as shares in non-proportional contracts. The company expects to be a following market primarily in the initial years as it builds up sufficient credible experience and statistics to support decision-making before taking on a lead reinsurer role. The company aims to develop in-house pricing models and technical expertise before providing lead terms to domestic insurers. For overseas programmes, the company will continue to follow established lead terms for some time. The majority of business is expected to be sourced directly from cedants, with the remainder accessed through brokers.

Business Profile (Continued...)

Underwriting risk is heightened given the company's concentration in catastrophe-exposed lines, including property and engineering reinsurance. The company does not currently perform natural catastrophe analysis using commercial vendor models, but it is evaluating future use of modeling tools to support underwriting/risk assessment of flood and earthquake risks in Nepal. For overseas risks, the company expects sufficient data granularity to monitor the aggregate exposures to support underwriting and accumulation management.

Enterprise Risk Management

The enterprise risk management (ERM) framework of Himalayan Re is viewed to be appropriate, supported by a risk governance structure that has been put in place and risk management policies and procedures, which are expected to be refined and developed over time.

The board of directors retains ultimate oversight and responsibility for the company's ERM framework, process and controls. The board is supported by board subcommittees, which help in setting priorities, performance monitoring and reporting. The CEO is responsible for operationalising ERM systems and processes with the support from an ERM committee that meets monthly to review risk management activities. Individual risk owners across the various functional units of the company, including underwriting, claims, and operations are required to conduct risk identification, perform measurements, propose control measures and update the risk register.

Risk management capabilities are supported by an experienced management team that possesses technical expertise and relevant industry experience. Risk appetite and risk tolerance levels have been defined mainly in respect of underwriting risks. The company is in the process of refining and building up its risk register with regard to areas that include underwriting, claims, operations, finance, investments and accounting. Risk management policies and procedures, including control measures, are being tested/implemented, and these are expected to be refined over time. In addition, risk governance and culture are expected to be strengthened over time through staff training and development, and knowledge transfer sessions.

The company is aware of its catastrophe accumulation risk and conducts stress testing concerning its catastrophe exposures. Other stress tests have been conducted in respect of business growth exceeding/falling below expectations, as well as for varying loss experience to understand the impact on capitalisation and regulatory solvency. The company has a heightened natural catastrophe accumulation risk given its current basic risk modeling capabilities, although the approach is expected to gain sophistication as time goes by.

As a start-up entity, business execution risk and operational risk remain key areas to be managed. Successful business plan execution is subject to risk given that the company is in a start-up phase. The business plan is also contingent on favourable regulatory developments, including the approval for mandatory cessions. Operational risk is viewed to be mitigated by the technical expertise and relevant industry experience brought by the experienced management team, as well as the use of key policies and procedures that have been formalised.

Himalayan Re is exposed to higher underwriting risk given its lack of an established market position. While the company has indicated a low-risk appetite for higher-risk segments, these are also the areas where reinsurance capacity tends to be lacking. The company has initiated various control measures to ensure the quality of underwriting. For instance, an Underwriting Management Committee has been put in place to discuss proposals that might not fall readily within the acceptable criteria. In addition, the company will seek to obtain modeled outputs from ceding companies from the targeted markets before participation in order to mitigate underwriting and accumulation risks.

Reinsurance Summary

The company plans to purchase non-proportional retrocession for both its domestic and overseas exposures. For its domestic book, the company plans to purchase a non-marine risk and CAT excess of loss (XOL), a marine XOL, as well as a riot, strikes, malicious damage, sabotage and terrorism (RDSMST) XOL. Per risk/event retention for most lines of business is around 1% of the company's current capital. A risk and CAT XOL is planned for its overseas acceptances with a low underlying retention as well.

Financial Statements

Balance Sheet	07/15/2021		07/15/2021
	NPR (000)	%	USD
Cash and Short Term Investments	6,994,205	99.7	59,381
Total Cash and Invested Assets	6,994,205	99.7	59,381

Balance Sheet	07/15/2021		07/15/2021
	NPR (000)	%	USD
Debtors / Amounts Receivable	152	...	1
Other Assets	20,390	0.3	173
Total Assets	7,014,747	100.0	59,555
Unearned Premiums	107	...	1
Non-Life - Outstanding Claims	1	...	...
Total Gross Technical Reserves	108	...	1
Other Liabilities	5,215	0.1	44
Total Liabilities	5,323	0.1	45
Capital Stock	7,000,000	99.8	59,430
Retained Earnings	4,144	0.1	35
Other Capital and Surplus	5,280	0.1	45
Total Capital and Surplus	7,009,424	99.9	59,510
Total Liabilities and Surplus	7,014,747	100.0	59,555

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit .00849 = 1 Nepalese Rupee (NPR)

Income Statement	07/15/2021			07/15/2021
	Non-Life NPR (000)	Life NPR (000)	Other NPR (000)	Total NPR (000)
Gross Premiums Written	164	...	...	164
Net Premiums Earned	57	...	...	57
Net Investment Income	...	...	23,762	23,762
Total Revenue	57	...	23,762	23,819
Benefits and Claims	1	...	...	1
Net Operating and Other Expense	10,381	...	...	10,381
Total Benefits, Claims and Expenses	10,382	...	...	10,382
Pre-Tax Income	-10,325	...	23,762	13,437
Income Taxes Incurred	...	...	...	4,013
Net Income before Non-Controlling Interests	...	...	...	9,424
Net Income/(loss)	...	...	...	9,424

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit .00849 = 1 Nepalese Rupee (NPR)

Himalayan Reinsurance Limited

Operations

Date Incorporated: June 06, 2021

Domiciled: Nepal

Business Type: Property/Casualty

Organization Type: Stock

Financial Size: VII (\$50 Million to \$100 Million)

Last Update

February 11, 2022

Identifiers

AMB #: 074846

Contact Information

Domiciliary Address:
Kathmadu District,
Kathmandu Metropolitan City,
Ward No. 01, Naxal,
Nepal

Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Best's Credit Ratings

Rating Relationship

AM Best Rating Unit: 074846 - Himalayan Reinsurance Limited

Refer to the [Best's Credit Report for AMB# 074846 - Himalayan Reinsurance Limited](#) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

Best's Credit Rating History

AM Best has assigned ratings on this company since 2022. In our opinion, the company has a Fair ability to meet their ongoing insurance obligations and a Fair ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](#) in BestLink:

Best's Financial Strength Ratings				Best's Long-Term Issuer Credit Ratings		
Effective Date	Rating	Outlook	Action	Rating	Outlook	Action
Current -						
Feb 11, 2022	B	Stable	Assigned	bb+	Stable	Assigned

Regulatory

Auditor: Suvod Associates

An independent audit of the company's affairs through July 15, 2021, was conducted by Suvod Associates.

Financial Results

Financial exhibits presented in this report provide calculated ratios using the most recent company-filed statements available in BestLink - Best's Statement File – Global.

Balance Sheet Highlights

Capital Generation Analysis

	2021 NPR (000)	2020	2019	2018	2017
Net Income	9,424	...	...	...	...
Net Change in Paid-In Capital and Surplus	7,000,000	...	...	...	...
Net Change in Capital and Surplus	7,009,424	...	...	...	...
Ending Capital and Surplus	7,009,424	...	...	...	...

Source: BestLink® - Best's Financial Suite

Liquidity Analysis

	2021	2020	2019	2018	2017
Liquid Assets to Total Liabilities	999.9	...	...	...	...
Total Investments to Total Liabilities	999.9	...	...	...	...

Source: BestLink® - Best's Financial Suite

Asset Liability Management | Investments

	2021 NPR (000)	2020	2019	2018	2017
Composition of Cash and Invested Assets					
Total Cash and Invested Assets	6,994,205	...	...	...	...
Cash (%)	100.0	...	...	...	...
Total Cash and Unaffiliated Invested Assets (%)	100.0	...	...	...	...
Total Cash and Invested Assets (%)	100.0	...	...	...	...

Source: BestLink® - Best's Financial Suite

Operating Performance Highlights

	2021 NPR (000)	2020	2019	2018	2017
Financial Performance Summary					
Pre-Tax Income	13,437	...	...	...	...
Net Income after Non-Controlling Interests	9,424	...	...	...	...

Source: BestLink® - Best's Financial Suite

	2021	2020	2019	2018	2017
Operating and Financial Performance Ratios (%)					
Non-Life Performance:					
Loss and LAE Ratio	1.8	...	...	...	...
Expense Ratio	999.9	...	...	...	...
Non-Life Combined Ratio	999.9	...	...	...	...

Source: BestLink® - Best's Financial Suite

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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