October 01, 2024

ICICI Prudential Life Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	1,200.00	1,200.00	[ICRA]AAA (Stable); reaffirmed
Total	**1,200.00**	**1,200.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in ICICI Prudential Life Insurance Company Limited's (ICICI Pru) established market position – it is one of the largest private life insurer in terms of Retail Weighted Received Premium (RWRP) in FY2024. ICICI Pru has a diversified product offering and distribution network and ICRA expects it to maintain its market position. The company's capitalisation remains supported by healthy internal accruals with a reported solvency of 1.88 times as on June 30, 2024 (compared to the required regulatory level of 1.50 times). The profitability remains healthy with an average RoE[1] and RoEV[2] of 10.1% and 14.6%, respectively in the last five years.

The rating also factors in the strong promoter profile with ICICI Bank Limited[3] (ICICI Bank) holding 51.2% and Prudential Corporation Holdings Limited[4] (Prudential) holding 22.0% in ICICI Pru as on June 30, 2024. The rating considers the company's strategic importance to ICICI Bank and the existence of the shared brand name which strengthens ICRA's expectation that is likely to receive timely and adequate support from ICICI Bank, if needed.

ICICI Pru's value of new business (VNB) remained healthy at Rs. 2,227 crore in FY2024 compared to Rs. 1,328 crore in FY2019, though it declined on a sequential basis from Rs. 2,765 crore in FY2023, mainly due to the change in the product mix, competitive pressure on pricing and increase in expenses. While the company has recorded healthy growth in the individual business in 5M FY2025, its ability to continue growing this business will be a driver of its overall profitability as VNB growth will incrementally depend largely on APE growth. The profitability and solvency may also remain susceptible to changes in the actuarial assumptions, leading to long-term changes in the reserving requirements.

The Stable outlook factors in the expectation that the company will continue to receive support from ICICI Bank, if required, and will maintain its solvency level above the negative rating trigger.

Key rating drivers and their description

Credit strengths

Strong promoter profile – ICICI Bank and Prudential held 51.2% and 22.0%, respectively, in ICICI Pru as on June 30, 2024. The majority shareholder, ICICI Bank is a systemically important private sector bank in India. As per ICRA's estimates, the bank had a 7.2% market share in the Indian banking sector advances and a 17.8% share in private sector bank advances as on March 31, 2024. With a presence in banking, insurance, asset management, investment banking and private equity, the ICICI Group is a large player in the Indian financial system. ICICI Pru is the life insurance subsidiary and an exclusive life insurance partner of ICICI Bank. The strong parentage and shared brand name with ICICI Bank along with board supervision strengthen ICRA's

[1] Return on equity (RoE) = Profit after tax / Net worth excluding fair value change account
[2] Return on embedded Value (RoEV) – Embedded value operating profit / Opening embedded value
[3] Rated [ICRA]AAA (Stable) for its Basel III Tier II bond
[4] A2 is Long Term Issuer Rating

expectation that the company will receive timely support if required. The foreign promoter, Prudential Plc is a multinational insurance company headquartered in London & Hong Kong. It provides life & health insurance and asset management.

Leading market position with diversified product and distribution channels – ICICI Pru is a well-established player in the life insurance space. It is one of the largest private insurers and as per ICRA's estimates it had a market share of 6.6% in terms of individual APE and 4.8% in terms of overall new business premium (NBP) in FY2024 (7.2% and 4.6%, respectively, in 5M FY2025). The company has a diversified product offering across the savings, annuity, and protection businesses with a focus to serve the varied customer needs across the life stages of the customer. Of the overall FY2024 APE, the product mix comprised of unit linked insurance plans (ULIPs) accounting for 43.2%, non-linked savings (25.8%), annuity (10.5%), group funds (3.5%) and protection (16.9%). Within protection, retail protection contributed 31.4%, credit life (39.4%) and group term (29.2%).

The company has an exclusive tie-up with ICICI Bank. However, the proportion of business generated from ICICI Bank has decreased over the past few years, due to the bank's increased focus on its banking products. As a result, the share of business sourced in terms of retail APE from ICICI Bank declined to about ~12-15% in FY2024 from about 51% of overall APE in FY2019, resulting to decline in the share of bancassurance sourcing to ~29% in FY2024 from ~55% in FY2019. However, during the last five years, the company has transitioned its distribution profile, and its diversification strategy ensures that all channels contribute to growth. Apart from ICICI Bank, the company has tie up with 42 banks and 1,150 non-bank partnerships. The company continues to build capacity and had more than 2,11,000 agents as on June 30, 2024.

Healthy profitability supports solvency position – ICICI Pru's absolute VNB has been increasing over the years (Rs. 2,765 crore in FY2023 compared to Rs. 1,328 crore in FY2019), primarily driven by the growth in the higher-margin non-participating (non-par) and protection segments in the product mix. Although, the VNB declined in FY2024 to Rs. 2,227 crore, it remains healthy. The VNB margin which had been on an improving trend (32.0% in FY2023 from 17.0% in FY2019) declined in FY2024 (24.6%). The increase in the share of ULIP as well as the decline in the share of the higher-margin non-par segment in individual business, higher competition and increase in operating expenses led to the decline in VNB margins. Going forward, the improvement in the absolute VNB will largely depend on the APE growth. The embedded value (EV) increased at a compound annual growth rate (CAGR) of 14.4% during FY2019-FY2024 to Rs. 42,337 crore as on March 31, 2024, while the 5-year average RoEV was 14.6%. The company's persistency level improved further in FY2024 across most cohorts, supporting the profitability.

ICICI Pru's reported solvency stood at 1.88 times as on June 30, 2024, compared to the regulatory requirement of 1.50 times. The capital consumption over the last few years was driven by the high growth in the sum assured. No capital was infused in the company in the recent past (except through employee stock ownership plans – ESOPs) and the solvency level was largely supported by healthy internal accruals. Moreover, ICICI Pru has headroom for raising additional sub-debt of ~Rs. 1,350 crore as of June 30, 2024, which provides further financial flexibility.

The ability to maintain prudent asset-liability management, to mitigate the interest rate risk arising from the deployment of future policy premiums at remunerative rates, and achieve operating experience (such as persistency, mortality, operating costs, and interest rates), in line with the assumptions at the time of policy underwriting, will remain the key driver of the long-term profitability and capitalisation.

Credit challenges

Ability to improve premium growth and profitability – The premium growth FY2024 was lower in FY2024 for the industry (individual NBP growth of 3.7% in FY2024), largely on account of the headwinds due to the change in taxation, given the Budget announcement regarding taxation on returns from life policies with a premium of more than Rs. 5 lakh per annum applicable after March 2023. Additionally, the company had previously seen a decline in the private market share in the Retail Weighted Received Premium (RWRP) (9.9% in FY2023 from 17.7% in FY2019). Although this started improving in FY2024 and continued to do so in 5M FY2025 (10.7%), the sustainability of the same while maintaining/improving the profitability remains to be seen.

The regulatory landscape for the life insurance sector has been evolving and expected to have a bearing on the overall growth and profitability of the sector. The impact of the recent regulatory changes, leading to an increase in the surrender values of life insurance policies, on the commission structure, persistency ratios and profitability will remain monitorable.

Environmental and social risks

Life insurance companies like ICICI Pru typically invest in long-term debt securities and equity and have broadly diversified portfolios, including exposure to sectors affected by environmental risks. However, active portfolio management mitigates this risk. While pollution and other environmental damage could somewhat affect mortality rates in the long run, the overall trends towards increased environmental regulation mitigate this risk. Life insurers, which underwrite policies only in a limited region, could be more affected by natural and man-made disasters. However, ICICI Pru does not face such risks, given its large scale and diversified business.

As for social risks, even though lifespans have increased, changing lifestyles, increased obesity levels and pandemic/other disease-induced mortalities could have an adverse impact on long-term mortality/morbidity rates. Accordingly, future claims could be higher than currently estimated. Increase in mortality rates could affect ICICI Pru's financial performance as it would be required to raise the reserving against possible future claims on the business written in the past. Other social risks stem from the potential mishandling of sensitive customer data and privacy breaches. This could impact the credit profile in the form of regulatory penalties or reputational damage. Human capital risks are also quite high for life insurance companies like ICICI Pru with challenges related to recruiting and retaining key employees.

Liquidity position – Superior

The company's net premium (excluding ULIP) stood at Rs. 22,244 crores while the net claims and benefits (excluding ULIP) paid stood at Rs. 6,654 crores in FY2024. While the operating cash flow was negative in FY2024, it was mainly driven by the high benefit payouts in the ULIP segment, which poses limited market risk to the company. Within the investments (excluding ULIP), the share of Central and State government securities stood at Rs. 88,653 crore, accounting for 68.2% of the total investments as on June 30, 2024, further supporting the policyholders' liabilities. The shareholders' investment of Rs. 10,152 crore also remains superior in relation to the sub-debt outstanding of Rs. 1,200 crore as on June 30, 2024.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Deterioration in credit profile of ICICI Bank or a decline in the strategic importance of ICICI Pru to ICICI Bank or dilution in the expectation of support from the promoter. Additionally, sustained decline in the company's solvency ratio to less than 1.70 times will be negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Life Insurance Rating Approach – Consolidation Rating Approach - Implicit parent or group support
Parent/Group support	Parent/Investor: ICICI Bank Limited The rating factors in the high likelihood of financial support from ICICI Bank to ICICI Pru driven by reputational and strategic considerations.
Consolidation/Standalone	Consolidated

About the company

ICICI Pru is promoted by ICICI Bank Limited - one of India's foremost financial services companies and Prudential Corporation Holdings Ltd (Prudential), which is a part of the Prudential PLC group headquartered in London & Hong Kong - a leading international financial services group. As on June 30, 2024, ICICI Bank held 51.2% and Prudential held 22.0% in the company while the rest is publicly held.

Incorporated in July 2000, ICICI Pru offers vast and diversified products to cater to the specific needs of customers across different life stages, enabling them to meet their long-term savings, life protection, healthcare, and retirement planning requirements. These products are offered under Unit Linked Insurance Plans (ULIPs), participating, non-participating, annuity, protection & group businesses. These are distributed through individual agents, corporate agents, banks, brokers, the company's proprietary sales force, website, micro agents, web aggregators, insurance marketing firm etc.

Key financial indicators

ICICI Prudential Life Insurance Company (Consolidated)	FY2023	FY2024	Q1FY2025
Gross direct premium income	39,933	43,236	8,284
PAT	813	851	224
Net worth	10,090	11,005	11,286
Total investments^	1,04,158	1,24,886	1,30,041
13th month persistency ratio*	85.4%	88.7%	89.7%
61st month persistency ratio*	67.3%	65.6%	65.9%
Solvency ratio (times)	2.09	1.92	1.88

Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations; ^excluding linked investments

** Regular and limited pay persistency in accordance with IRDAI Master circular on Submission of Returns 2024 dated June 14, 2024; 12- month rolling persistency for Q1: June to May measured on June 30 of the financial year, and FY: April to March measured on April 30*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Oct 01, 2024	Date	Rating	Date	Rating	Date	Rating
Subordinated debt programme	Long term	1,200.00	[ICRA]AAA (Stable)	06-Oct-23	[ICRA]AAA (Stable)	12-Oct-22	[ICRA]AAA (Stable)	13-Oct-21	[ICRA]AAA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE726G08014	Subordinated debt	Nov-06-2020	6.85%	Nov-06-2030*	1,200.00	[ICRA]AAA (Stable)

Source: ICICI Pru

** The company has a call option, which is exercisable five years from the date of allotment and at the end of every year thereafter before the redemption date*

The rating factors in the key features of the subordinated debt instrument:

- Servicing of interest is contingent on the company maintaining a solvency ratio above the level stipulated by the regulator[5]
- In case the interest payouts lead to a net loss or an increase in the net loss, prior approval of the regulator would be required to service the debt

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
ICICI Prudential Pension Funds Management Company Limited	100%	Full consolidation

[5] *As per IRDAI regulations, insurers are required to maintain a minimum solvency ratio of 150%*

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Abhilash Rathi
+91 22 6114 3421
abhilash.rathi@icraindia.com

Jui Kulkarni
+91 22 6114 3427
jui.kulkarni@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches