

September 16, 2021

TATA AIA Life Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA(Stable); reaffirmed
Total	-	-	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation considers the promoter's strength with Tata Sons Private Limited {TATA; rated [ICRA]AAA (Stable)} holding a 51% stake and AIA International Limited (AIA; rated Aa2/Stable outlook by Moody's) holding a 49% stake as on June 30, 2021. The existence of a shared brand name strengthens ICRA's assumption that TATA AIA Life Insurance Company Limited (TATA AIA) is likely to receive timely and adequate support from both promoters. AIA provides support in terms of operational and risk management expertise for building robust systems and policies. It also provides expertise in improving the agency channel and product portfolio, and in enabling the right set of digital tools, among others. The rating also takes into account the company's focus on the retail business, its diversified product mix, improving market share, comfortable capitalisation, healthy value of new business (VNB) margin and low risk in the investment book. TATA AIA's strategic importance to both TATA and AIA is reflected in the presence of their respective management on the company's board.

The rating factors in the company's high growth phase with the gross premium (GP) and retail weighted new business premium increasing at a compound annual growth rate (CAGR) of 36.8% and 34.4%, respectively during FY2017 to FY2021. TATA AIA's solvency profile remains comfortable (1.95 times as on June 30, 2021 compared to regulatory requirement of 1.50 times). The company has a strong set of shareholders to support its capital requirements for projected new business growth and solvency profile.

TATA AIA's profitability remains moderate with a net loss in Q1 FY2022 and a low return on equity of 2.2% in FY2021, given the relatively high operating and commission expenses. The company's profitability was adversely impacted driven by Covid-19 claims which were in-line with the industry experience. Further, the management stated that the company had additional Covid reserve overlay to atleast cover twice the amounts of claims paid for Covid cases as on June 30, 2021. ICRA notes that the overall impact on the solvency profile due to Covid claims remains manageable. Nevertheless, the company's focus on the relatively high-margin protection and non-participating segments resulted in a healthy VNB margin in FY2021.

ICRA also notes the highly competitive nature of the life insurance industry, mainly from entities having exclusive distribution arrangements with large banks. TATA AIA's ability to improve its cost efficiency and profitability while maintaining growth and ensuring comfortable solvency with timely capital infusion will remain a key monitorable.

Key rating drivers and their description

Credit strengths

Strong promoter profile and brand image – TATA and AIA hold stakes of 51% and 49%, respectively, in the equity share capital of TATA AIA as on June 30, 2021. The majority shareholder, TATA, is the principal investment company of the Tata Group with diverse business interests, a superior liquidity profile, and financial flexibility derived from the market value of its investments. The 150-year old business conglomerate is also one of the biggest brands in the country. With a track record of almost 100 years, AIA is one of the largest life insurers in the world with a presence in 18 markets across the Asia-Pacific region.

ICRA takes comfort from the degree of involvement of the promoters in the company's operations, board representation (three from TATA and two from AIA on the board of nine directors excluding the alternate director as on June 30, 2021), the shared brand image, and their ability to infuse capital into the company's life insurance business, which is typically capital intensive and has a long gestation period.

Retail-oriented player with focus on protection business – TATA AIA's retail business accounted for 97.5% (98.7% in FY2020) of its total annual premium equivalent (APE) in FY2021. The company has seen significant growth in the protection business with a CAGR of 73.1% during FY2017-FY2021 in terms of retail weighted new business premium. However, the share of the protection business in terms of the retail weighted new business premium declined to 22.1% in FY2021 from 27.9% in FY2020 due to the Covid-19 pandemic-related lockdown in Q1 FY2021, the partial lockdown thereafter in a few states and customer reluctance towards going for medical check-ups.

With a market share of 7.7% in the private sector life insurance space, based on the retail weighted new business premium in Q1 FY2022, TATA AIA is the fifth largest company among private insurers in the country. Its focus on increasing the share of the protection and non-participating segments resulted in an increase in the 13th month persistency ratio to 88.3% in FY2021 from 82.2% in FY2017. The improvement in the 13th month persistency ratio was also due to the change in the channel mix, wherein the business sourced from banks increased to 61.2% in FY2021 compared to 50.3% in FY2017 in terms of individual new business premium.

Diversified business and channel mix with healthy VNB margin – TATA AIA has a well-diversified and balanced premium profile with the share of the protection segment rising to 22.1% in FY2021 from 7.7% in FY2017 while the share of the savings segment declined to 77.9% in FY2021 from 92.3% in FY2017 in terms of the retail weighted new business premium. Within the savings segment, the share of the low-margin unit linked insurance plan (ULIP) segment declined to 19.5% (FY2021) from 33.1% (FY2017) while the share of the non-participating segment declined to 41.7% (FY2021) from 54.9% (FY2017). The share of participating products increased to 16.7% (FY2021) from 4.3% (FY2017).

TATA AIA's product mix shift towards the high-margin protection and non-participating segments is reflected in its healthy VNB margin in FY2021. The company has also been able to steadily grow its market share over the past few years, driven by the strong growth momentum in its new business premium. TATA AIA's tie-ups with banks like IndusInd Bank, HDFC Bank, Central Bank of India, Citibank and DBS Bank have allowed it to diversify its channel mix, which is supported by the strong agency and direct workforce.

Comfortable solvency with capital required to support high business growth – TATA AIA's solvency ratio of 1.95 times, as on June 30, 2021, is considered to be comfortable compared to the regulatory minimum of 1.50 times. The company targets to maintain solvency ratio at more than 1.75 on a sustained basis. Capital requirement is a function of the business underwritten by the company. Basis high growth trajectory in recent past and expected high future business growth, the company will need additional capital support in the next couple of years to maintain new business growth momentum. Further, the management indicated that both shareholders are committed to infuse capital and are not looking to dilute equity and intend to maintain their shareholding. ICRA believes that TATA AIA is backed by strong promoters with liquidity and financial capability to fund the insurer, if required.

Credit challenges

Moderate profitability on account of relatively high operating and commission expenses – The company's operating expense ratio¹ to GP improved to 25.3% in FY2021 from 29.4% in FY2020 mainly due to pandemic related savings on rent, travel, and promotion, among others. The ratio also benefited from the higher growth in the GP. ICRA notes that the Covid-related savings in operating expenses are not sustainable as reflected by the rise in the operating expense ratio to 31.6% in Q1 FY2022. TATA

¹ Includes operating expenses related to insurance premium, service tax on premium, provision for doubtful assets, bad debts written off, provision for tax, provision for diminution in the value of investments, expenses other than those directly related to the insurance business and corporate social responsibility expenses

AIA's operating expense ratio remains higher than peers mainly due to the absence of a banking promoter. The company continued hiring employees to support its higher growth rate and plans to scale up agency channel by opening additional agency branches in FY2022, which is likely to result in a higher operating expense ratio. ICRA notes that productivity gain comes with a lag as the investment in people and branches takes time to become productive. Also, the company's commission expense to net premium written ratio, at 9.8% in FY2021, remains higher than peers due to its focus on protection products wherein the commissions are front-loaded.

The company's profitability was adversely impacted driven by Covid-19 claims which were in-line with the industry experience. Further, the management stated that the company had additional Covid reserve overlay to at least cover twice the amounts of claims paid for Covid cases as on June 30, 2021. The combined impact of high operating and commission expenses and Covid-related expenses resulted in lower return ratios with the return on equity in the range of 1.6-2.2% during FY2019-FY2021. The company's lower profitability continued as it reported a net loss of Rs. 108.6 crore in Q1 FY2022 compared to a net loss of Rs. 62.3 crore in Q1 FY2021. The company is still in the growth phase and will require capital to support its projected growth.

Intense competition in life insurance industry – TATA AIA faces stiff competition from public as well as private insurers. There are 24 insurers in the Indian life insurance industry. Life Insurance Corporation of India (LIC) contributed ~41% to the retail weighted new business premium in Q1 FY2022. The top 4 insurers contributed ~61% to the private insurers' retail weighted new business premium while the remaining private insurers contributed ~39% in Q1 FY2022. Given the strong resource profile of these top 4 private insurers, they hold significant competitive advantage in terms of a strong distribution network (due to the presence of a captive bank or bank in the parent group), which reflects in their lower commission and operating expense ratios. TATA AIA's ability to improve its operating efficiency as it scales up remains a key monitorable.

Liquidity position: Strong

TATA AIA reported liquid assets of Rs. 29,226 crore (calculated as liquid investments, adjusted for haircuts and adjustments to stressed investments, cash & bank balance and net dues from insurance entities) as on June 30, 2021. Against the actual benefits/claims paid in Q1 FY2022 were Rs. 841 crore or 11.5% (annualised) of liquid assets as on June 30, 2021. The company did not have any debt outstanding as of June 2021. ICRA does not foresee any liquidity risk in the near term.

Rating sensitivities

Positive factors – NA

Negative factors – The outlook or the rating could be revised in case of a revision in the rating of the parent company (Tata Sons), a significant change in the company's majority shareholding or in its linkage with the parent. Pressure could also arise if the company's solvency ratio deteriorates to less than 170% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Issuer Rating Methodology for Life Insurance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Tata Sons ICRA factors in the strong promoter support (Tata Sons). The rating considers the financial and management support received by TATA AIA from its promoter in the form of senior management deputation and board representation, and equity infusion in the past apart from brand linkages.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials.

About the company

Tata AIA Life Insurance Company Limited is a joint venture between Tata Sons Private Limited (51% equity shareholding) and AIA International Limited (49%). TATA AIA provides life insurance products and services in India. The product offerings include protection, wealth, savings and child solutions for individuals and group solutions like credit life and group term for corporates. The Mumbai-based company was incorporated in 2000.

TATA AIA's gross premium was Rs. 11,105 crore in FY2021 (Rs. 8,309 crore in FY2020). For the same period, the company's 13th month persistency ratio was 88.3% and the individual death claims settlement ratio was 98%. TATA AIA had 221 branches spread across the country as on March 31, 2021. It follows a multi-channel distribution approach, which consists of proprietary channels like agency and direct sales force, and partnership distribution channels including corporate agents and banks.

Key financial indicators (audited) – Standalone

TATA AIA	FY2020	FY2021	Q1 FY2021	Q1 FY2022
Gross Direct Premium	8,309	11,105	1,835	2,052
Income from Investment and Fees	304	8,832	2,093	1,636
Total Operating Expense	2,443	2,805	544	649
PAT	44	47	(62)	(109)
Total Net Worth	2,114	2,161	2,051	2,052
Total Policyholders' + Shareholders' Investments	21,948	29,847	23,615	30,840
Operating Expense Ratio	29.4%	25.3%	29.7%	31.6%
Return on Equity	2.1%	2.2%	NM	NM
13 th Month Persistency Ratio	89.1%	88.3%	85.6%	89.0%
61 st Month Persistency Ratio	58.8%	57.4%	60.6%	57.4%
Regulatory Solvency Ratio	2.35	2.04	2.14	1.95

Note: Amount in Rs. crore; All calculations are as per ICRA Research

NM: Not meaningful

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 9, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 16, 2021	Aug 31, 2020	Oct 30, 2019	Jul 30, 2018
1	Issuer Rating	Long Term	-	-	[ICRA]AAA(Stable)	[ICRA]AAA(Stable); Assigned	-	-
2	Claims Paying Ability Rating	Long Term	-	-	-	iAAA; Withdrawn	iAAA	iAAA

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Very Simple

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: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AAA(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis - Not applicable

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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

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Branches



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