

July 07, 2023

Max 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	496.00	496.00	[ICRA]AA+ (Stable); reaffirmed
Total	496.00	496.00	

*Instrument details are provided in Annexure-I

Rationale

The rating factors in Max Life Insurance Company Limited's (Max Life) strong promoter profile, with Axis Bank (rated [ICRA]AAA (Stable)/[ICRA]A1+) holding a 12.99% stake along with its subsidiaries (Axis Capital and Axis Securities) in the company. Moreover, the Axis Group (Axis) has the right to acquire an additional 7% stake in Max Life. The rating also factors in Max Life's established presence in the individual life insurance segment and has been among top five private insurers with a market share of 6.5%, on new business premium (NBP) basis, in the private sector. The rating also considers the company's comfortable solvency with a solvency ratio of 1.90 times as on March 31, 2023 compared to the regulatory requirement of 1.50 times. Its profitability has been comfortable with the value of new business (VNB) margin {VNB/annual premium equivalent (APE)} consistently increasing in the last five years to 31.2% in FY2023. The high VNB margin was supported by the shift in the new business mix in FY2022 and FY2023 with the increasing share of non-participatory (non-par) products (48.4% of the APE in FY2023).

The rating factors in Max Life's strategic importance to Axis and the expectation of support from Axis as and when required. Axis has been associated with Max Life as a distributing partner with a high share of more than 55% in its individual APE for FY2023. Axis has strong board representation at Max Life (three directors appointed by Axis along with a right to Chairmanship on a rotational basis). While Axis has a presence across the financial services segment, Max Life will help improve its foothold in the insurance business and is of strategic importance to Axis. Apart from Axis, Max Financial Services Limited held 87% in Max Life as on March 31, 2023.

The company has high operating expenses compared to larger private peers. With the company's strategy to increase its share of proprietary channels to support growth the operating expense is likely to remain elevated. The growth in the VNB margin and profitability would depend on Max Life's ability to improve its operating efficiency. Further, the VNB margin is expected to moderate from the FY2023 level with the decline in the share of the high-margin non-par products. The profitability and solvency may remain susceptible to changes in the actuarial assumptions, driving long-term changes in the reserving requirements. Given its growth plans, the company is likely to require capital in the medium term to maintain a cushion over the regulatory requirement and the quantum of capital required is expected to be supported by Axis Bank and MFSL. Max Life has headroom for raising additional sub-debt of ~Rs. 496 crore, which could boost the solvency to ~2.03 times on a proforma basis. The Stable outlook factors in ICRA's expectation of continued strategic and capital support from Axis Group and Max Life's established position in the life insurance industry.

Key rating drivers and their description

Credit strengths

Strong promoter profile – Axis held a 12.99% stake in Max Life as on March 31, 2023 and has the right to acquire an additional 7%. Axis Bank is the third largest private bank in India. With the completion of the 7% acquisition, Axis' stake of ~20% will be higher than the stakes held by the Max promoters and Mitsui Sumitomo Insurance Company Limited (MSI). Although Axis Bank

has a diversified presence in the financial services segment spanning asset management, securities broking, and investment banking through its subsidiaries, in addition to lending, Max Life will help improve its foothold in the insurance business. Axis already had a well-established relationship with Max Life as a bancassurance (banca) partner. This has now been extended with Axis being a co-promoter of Max Life and having a strong representation on the company's board along with Max Financial. Max Life's existing branding has been strengthened further as a joint venture between Axis Bank and Max Financial.

Axis' wide distribution network is likely to provide impetus for the company's additional growth. The share of banca distribution has been in the range of 62-71% of the individual APE in the last four years, which predominantly includes contribution from Axis Bank (>55%). As Axis Bank is a co-promoter of Max Life, ICRA expects strategic and capital support from the bank to be forthcoming. The completion of the purchase of the additional 7% stake by Axis remains a monitorable.

Established player in individual segment among private peers – Max Life, which commenced operations in 2000, is a well-established player in the life insurance space. It is among the top five largest private life insurer with an NBP market share of 6.5% in the private sector in FY2023 (6.8% in FY2022). Its market share, in terms of individual NBP, stood higher at 9.4% within the private sector as of March 2023 (10.1% as of March 2022). The share of non-par in the APE increased to 48.4% in FY2023 (28.7% in FY2022) from 8.6% in FY2019. The high one-off growth in the non-par segment in FY2023 was due to new product launch and change in tax regulations in the recent Budget, wherein customers took advantage of tax benefit allowed till March 31, 2023. Going forward, Max Life expects to maintain a balanced product mix with non-par share to moderate while the share of the individual protection, par, group credit life and unit linked insurance plan (ULIP) segments is set to improve.

Although the company's distribution channel has been concentrated with bancassurance contributing to 62%-71% of the individual APE in the past few years, the growth of the proprietary channel is likely to help in diversification.

Comfortable profitability metrics with VNB margins peaking; however, return ratios likely to moderate in the near term – Max Life's VNB margin has consistently increased in the last five years and stood at 31.2% in FY2023 compared to 27.4% in FY2022 and 21.7% in FY2019, primarily driven by the high growth in the higher-margin non-par and protection segments. Max Life's VNB has been increasing over the years (Rs. 1,949 crore in FY2023 compared to Rs. 856 crore in FY2019). The embedded value (EV) increased at a compound annual growth rate (CAGR) of 16.1% during FY2019-FY2023 to Rs. 16,263 crore as on March 31, 2023.

While Max Life's profitability has remained healthy with a return on equity (RoE) of ~19-20% in the last five years till FY2021, it was lower at ~13% in FY2022 and FY2023. Profitability has been lower due to the Covid-19 related claims in FY2022 and higher initial reserving in the non-par segment which has grown significantly in the last two years. While the persistency¹ ratios are satisfactory in the 13th month at 83% in FY2023, it is lower in later cohorts, which also impacts profitability. The company's profitability is likely to moderate in the near to medium term with the company's plan to scale-up proprietary channels to source business resulting into higher operating expenses. The company's ability to improve its operating efficiency and persistency which remains lower compared to peers, would remain crucial for incremental profitability.

Comfortable capitalisation – Max Life's solvency remains comfortable at 1.90 times as on March 31, 2023 (2.01 times as on March 31, 2022) compared to the regulatory requirement of 1.50 times. The solvency ratio was largely supported by internal accruals and funds for future appropriation (FFA) related to par funds. FFA accounted for 48% of the available solvency margin as on March 31, 2023. The profitability and solvency may remain susceptible to changes in the actuarial assumptions, driving long-term changes in the reserving requirements.

With the high growth in business underwritten and high dividend payouts (till FY2021), the solvency had been declining over the years. However, it remains well above the regulatory requirements. Also, the company has not announced any dividend payout in FY2022 and FY2023 to retain profits for business growth and to maintain solvency. Given its growth plans, the company is likely to require capital in the medium term. Max Life has headroom for raising additional sub-debt of ~Rs. 496 crore, which could boost the solvency to ~2.03 times on a proforma basis. Further, ICRA expects support from the parents to

¹ Regular premium/Limited premium payment under individual category

be forthcoming if required. Max Life's solvency, while expected to decline with the healthy growth, is likely to be maintained above 1.70 times.

Credit challenges

Operating expenses relatively higher than peers – Max Life's operating expenses (including commissions) remained high compared to other larger private peers and deteriorated marginally to 20.8%² of the gross written premium (GWP) in FY2023 compared to 20.0% in FY2022. The high operating expenses were largely due to rise in employee expenses to 8.0% of GWP in FY2023 (7.4% in FY2022) and high net commission expenses of 6.4% of GWP in FY2023 (6.3% in FY2022). The company's operating expenses and net commission expenses, as a percentage of GWP, remain higher compared to larger private peers mainly due to the relatively lower scale of the renewal book driven by lower persistency in later years as well as high share of retail premium in overall business. Further, given the company's plan to scale-up its proprietary channels, the operating expenses are expected to remain elevated in the medium term. With the VNB margin peaking, Max Life's ability to improve its operating efficiency is likely to aid the margins further.

Liquidity position: Superior

The company's net premium (excluding ULIP) stood at Rs. 18,366 crore in FY2023 in relation to the maximum net claims and benefits (excluding ULIP) paid of Rs. 5,428 crore in the last few years. In addition, investments in Central and state government securities stood at Rs. 55,440 crore, accounting for ~64% of the total investments (excluding ULIP) as on March 31, 2023, which supports the liquidity to meet the claims of policyholders. The shareholders' investment of Rs. 5,504 crore also remains superior in relation to the sub-debt outstanding of Rs. 496 crore as on March 31, 2023.

Rating sensitivities

Positive factors – The outlook or the rating could be revised if there is a sustained increase in Max Life's market share and profitability.

Negative factors – The outlook or the rating could be revised in case of a revision in the ratings of the co-promoter (Axis Bank), inability to increase its stake to ~20% over the medium term or any change in its strategic importance to Axis. Pressure could also arise if the company's solvency ratio deteriorates to less than 1.70 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – Life Insurance Rating Approach – Consolidation Rating Approach – Implicit Support from Parent or Group
Parent/Group support	Parent/Group Company: Axis Bank The rating considers management support, given Axis' board representation, and the company's ability to leverage Axis Bank's wide branch network for the distribution of its insurance policies.
Consolidation/Standalone	For arriving at the rating, ICRA has used the standalone financials of Max Life. However, in line with its limited consolidation approach, ICRA has factored in the capital requirement of Max Life's subsidiary. ICRA notes that the subsidiary has a limited scale of operations. As on March 31, 2023, the company had one wholly-owned subsidiary, which is listed in Annexure II.

² Includes shareholder expenses

About the company

Max Life is a joint venture (JV) between Max Financial Services Limited and Axis Bank, holding a stake of 87.00% and 12.99% (including Axis Group entities), respectively, as on March 31, 2023. Max Financial is a listed entity held by the Max Group (including individual promoters) and Mitsui Sumitomo Insurance holding 10.15% and 21.86%, respectively, as on March 31, 2023. Launched in 2000, Max Life provides life insurance, savings, investment and annuity to individuals and groups. The products are offered under the protection, par, non-par and unit-linked lines of business with a presence across the country through 269 branches (own branches) and distribution partners.

Key financial indicators (audited)

Max Life	FY2021	FY2022	FY2023
Gross written premium	19,018	22,414	25,342
Income from investment and fees [^]	12,455	9,138	6,492
Total operating expense [*]	3,928	4,422	5,195
PAT	523	387	435
Total net worth	3,008	3,196	3,547
Total policyholders' + Shareholders' investments [@]	90,407	107,510	122,857
Operating expense ratio (excluding commissions)	14.5%	13.7%	14.4%
Net commission / Gross premium written	6.5%	6.3%	6.4%
Return on equity ^{&}	18.7%	12.5%	12.9%
13th month persistency ratio	83%	84%	83%
61st month persistency ratio	49%	49%	51%
Regulatory solvency ratio (times)	2.02	2.01	1.90

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

[^] Income from investment and fees includes other income

^{*} Total operating expense includes commission expenses

[@] Investments include linked investments

[&] RoE – Profit after tax/ Average equity

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jul 7, 2023	July 11, 2022	Jul 15, 2021	-
1 Subordinated debt programme	Long term	496.0	496.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (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
INE511N08016	Subordinated debt programme	Aug-02-2021	7.50%	Aug-02-2031*	496.00	[ICRA]AA+ (Stable)

Source: Company

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

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

- Servicing of interest is contingent on the company maintaining a solvency ratio above the levels stipulated by the regulator³
- 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	Max Life Ownership	Consolidation Approach
Max Life Pension Fund Management Limited	100.0%	Limited Consolidation

Source: Company

³ As per IRDAI regulations, insurers are required to maintain a minimum solvency ratio of 150%

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Branches



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