October 06, 2023

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 individual annual premium equivalent (APE[1]) for FY2023. 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 2.03 times as on June 30, 2023 (compared to the required regulatory level of 1.50 times). The profitability remains healthy with an average RoE[2] and RoEV[3] of 11.6% and 15.8%, respectively in the last five years. Moreover, ICRA does not expect any capital requirement for the company in the medium term.

ICICI Pru has doubled the value of new business (VNB) in the last four years, mainly driven by the change in the product mix. Going forward, the VNB growth will largely depend on APE growth while VNB margins will be an outcome of change in the product mix. The profitability and solvency may also remain susceptible to changes in the actuarial assumptions, leading to long-term changes in the reserving requirements.

The rating also factors in the strong promoter profile with ICICI Bank Limited {ICICI Bank; rated [ICRA]AAA (Stable)} holding 51.26% and Prudential Corporation Holdings Limited (rated A2 by Moody's) holding 22.07% in ICICI Pru. The rating considers in the strategic importance of ICICI Pru to ICICI Bank and the existence of the shared brand name which strengthens ICRA's expectation that the company is likely to receive timely and adequate support from ICICI Bank, if needed.

The Stable outlook factors in ICICI Pru's strong brand and distribution franchise, which will enable it to maintain its market position, and the expectations that the company 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 51.26% and 22.07%, respectively, in ICICI Pru as on June 30, 2023. The majority shareholder, ICICI Bank is a systemically important private sector bank in India. As per ICRA's estimates, it had a 7.5% market share in Indian banking sector advances on March 31, 2023 (7.5% as on March 31, 2022) and a 19.8% share (19.6% as on March 31, 2022) in private sector advances as on March 31, 2023. 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. As of June 30, 2023, ICICI Bank had 6,074 branches and 16,731 ATMs. ICICI Pru is the life insurance subsidiary of ICICI Bank and ICICI Bank is the exclusive bancassurance partner of ICICI Pru Life, which provides the company with access to a large customer base of ICICI Bank spread across various geographies. The strong parentage and shared brand name with ICICI Bank along with board supervision strengthen ICRA's expectation that the company will receive timely support if required. The foreign partner,

[1] *APE is the sum of the annualised first year premiums on the regular premium policies and 10% of the single premiums*

[2] *Return on equity (RoE) = Profit after tax / Average Reported net worth*

[3] *Return on embedded Value – Embedded value operating profit / Opening embedded value*

Prudential Plc is a multinational insurance company headquartered in London which provides life & health insurance and asset management, with a focus on Asia and Africa.

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 insurer and as per ICRA's estimation it had a market share of 6.5% in terms of individual APE and 4.6% in terms of overall new business premium (NBP) for FY2023. Its NBP grew by 12.5% on a year-on-year (YoY) basis in FY2023 (4-year compound annual growth rate (CAGR) of 13.8%), though this was lower than the industry growth of 17.9% (4-year CAGR of 14.6%). The company has exclusive tie-up with ICICI Bank. However, the share of business sourced from ICICI Bank has declined during the last few years, given ICICI Bank's focus on banking products. As a result, the share of business sourced in terms of APE from ICICI Bank declined to about 14% in 2023 from about 51% in 2019, resulting in a slower APE growth than the industry average and a decline in the share of bancassurance (banca) sourcing to ~30% in FY2023 from ~55% in FY2019. However, during the last 4 years, the company has transitioned its distribution profile and its diversification strategy ensures growth comes from all channels.

The company has a diversified product offering across the savings, annuity, and protections businesses with a focus to expand in tier 2-3 geographies i.e., more mass and mass affluent customer segments in addition to the affluent segments. While the company has no target product mix, incrementally the company is looking at growing its protection and annuity segment. The company has a diversified product offering spread across the savings - non linked (increased to 37.3% of APE in FY2023 from 8.6% in FY2019), savings-linked (35.9% in 2023 as compared to 79.6% in FY2019), protection businesses (17.4% in FY2023 increased from 9.3% in FY2019), annuity (5.9% in FY2023 compared to 0.9% in FY2019) and group and other (3.5% in FY2023 increased from 1.6% in FY2019).

Healthy profitability supports solvency position – ICICI Pru's VNB margin has increased consistently in the last four years and stood at 32.0% in FY2023 compared to 28.0% in FY2022 and 17.0% in FY2019, primarily driven by the growth in the higher-margin non-par and protection segments in the product mix. The company's absolute VNB has been increasing over the years (Rs. 2,765 crore in FY2023 compared to Rs.1,328 crore in FY2019), driven by the growth in the VNB margin, while APE remained flattish. Improvement in the absolute VNB will largely be dependent on the growth in the APE. The embedded value (EV) increased at a CAGR of 13.3% during FY2019-FY2023 to Rs. 35,634 crore as on March 31, 2023, while the 5-year average RoEV was 15.8%.

ICICI Pru reported a RoE of 8.5% in FY2023 (8.3% in FY2022). The reported profit after tax in FY2023 was partly impacted by the increase in the share of the non-par savings and protection businesses, which have a higher reserving requirement in the first year, while higher mortality claims impacted profitability in FY2022. The company's persistency level improved further in FY2023 across most cohorts (13th month persistency stood at 85.4% in FY2023), supporting the profitability.

ICICI Pru's reported solvency at 2.03 times as on June 30, 2023, compared to the regulatory requirement of 1.5 times. No capital was infused in the company in the recent past and the solvency level was largely supported by healthy internal accruals. Moreover, ICICI Pru has headroom for raising additional sub-debt of ~Rs. 1,290 crore as of June 30, 2023, which adds some financial flexibility. ICRA does not expect any capital requirement as the solvency ratio and expected internal accruals are likely to support the growth in the medium term.

Credit challenges

Ability to improve premium growth and profitability – ICICI Pru has doubled its VNB in the last four years i.e., from FY2019 to FY2023, which was driven by the change in the product mix, while the APE remained flattish. The company has a well-diversified product mix and plans to drive the VNB at the back of growth in the APE. The non-par segment which has been driving the growth in the VNB for the industry is likely to be impacted by the change in the tax regulations in the last Budget. Going forward, the VNB growth will be largely driven by growth in APE. As per ICRA's estimation, the company's market share in individual APE and NBP has declined to 6.5% and 4.6% respectively in FY2023 from 10.3% and 4.8% respectively in 2019 because of slow growth in APE from ICICI Bank channel (4-year APE CAGR of 2.6%). While ICRA expects that decline in the market share has stopped, the ability to grow the premium in line with market trends will be critical for maintaining the market position and profitability.

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 toward 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 the financial performance as the company would be required to raise the reserving against possible future claims on the business written in the past. Other social risks stem from potential mishandling of sensitive customer data and privacy breaches. This could impact the credit profile in the form of regulatory penalties or reputation 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

ICICI Pru's net premium (excluding unit linked insurance plans; ULIPs) was Rs. 20,002 crore in FY2023 in relation to the maximum net claims and benefits (excluding ULIPs) paid of Rs. 5,171 crore in the last few years. In addition, it had investments in Central and state government securities of Rs. 75,253 crore, accounting for 69% of the total investments (excluding ULIPs) as on June 30, 2023, supporting the liquidity further to meet any unexpected rise in the claims of policyholders. The company's shareholders' investment of Rs. 10,585 crore also remains superior in relation to the sub-debt outstanding of Rs. 1,200 crore as on June 30, 2023.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating or the outlook could be revised if there is a deterioration in the credit profile of ICICI Bank or a decline in the strategic importance of ICICI Pru to ICICI Bank or in the expectation of support from the promoter. In addition, a decline in the company's solvency ratio to less than 1.70 times on a sustained basis could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Life Insurance Rating Approach – Consolidation Impact of Parent or Group Support on an Issuer's credit Rating
Parent/Group support	Parent/Investor: ICICI Bank Limited The rating factors in the high likelihood of support from ICICI Bank, given the shared brand name and representation on the board
Consolidation/Standalone	Consolidated

About the company

ICICI Pru is promoted by ICICI Bank Ltd - one of India's foremost financial services companies and Prudential Corporation Holdings Ltd (Prudential), which is a part of the Prudential PLC group of the United Kingdom - a leading international financial services group. As on June 30, 2023, ICICI Bank held 51.26% and Prudential held 22.07% in the company while the rest is publicly held.

Incorporated in July 2000, ICICI Pru offers its customers vast and diversified products to cater to the specific needs of customers across different life stages, enabling them to meet their long-term savings need, life protection needs, healthcare need, and retirement planning need. These products are offered under participating, non-participating, non-participating variable and unit linked lines of 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 (audited) - consolidated

ICICI Prudential Life Insurance Company Limited	FY2022	FY2023	Q1 FY2023	Q1 FY2024
Gross direct premium income	37,458	39,933	7,265	7,375
Income from investments and fees ^	25,868	10,766	(8,492)	16,333
PAT	759	813	157	206
Total net worth	9,158	10,090	9,049	10,518
Total policyholders' + Shareholders' investments@	87,235	1,04,158	88,883	1,09,204
Assets held to cover linked liabilities	1,50,866	1,44,058	1,38,851	1,54,186
Value of new Business margin	28.0%	32.0%	31.0%	30.0%
Return on equity	8.3%	8.5%	7.1%	8.4%
13th month persistency ratio	84.6%	85.4%	85.6%	86.5%
61st month persistency ratio	54.7%	65.8%	57.5%	65.7%
Regulatory solvency ratio (times)	2.04	2.09	2.04	2.03

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
^ Income from investment and fees includes other income; income from investments was negative in Q1 FY2023 because of losses in ULIP investments, which are passed on to policyholders
@ Investments exclude linked investment

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct 06, 2023	Oct 12, 2022	Oct 13, 2021	Oct 14, 2020
1	**Subordinated debt programme**	Long term	1,200.00	1,200.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[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[4]
- 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 for combined analysis with consolidated analysis

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

[4] *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

Niraj Jalan
+91 33 7150 1146
niraj.jalan@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

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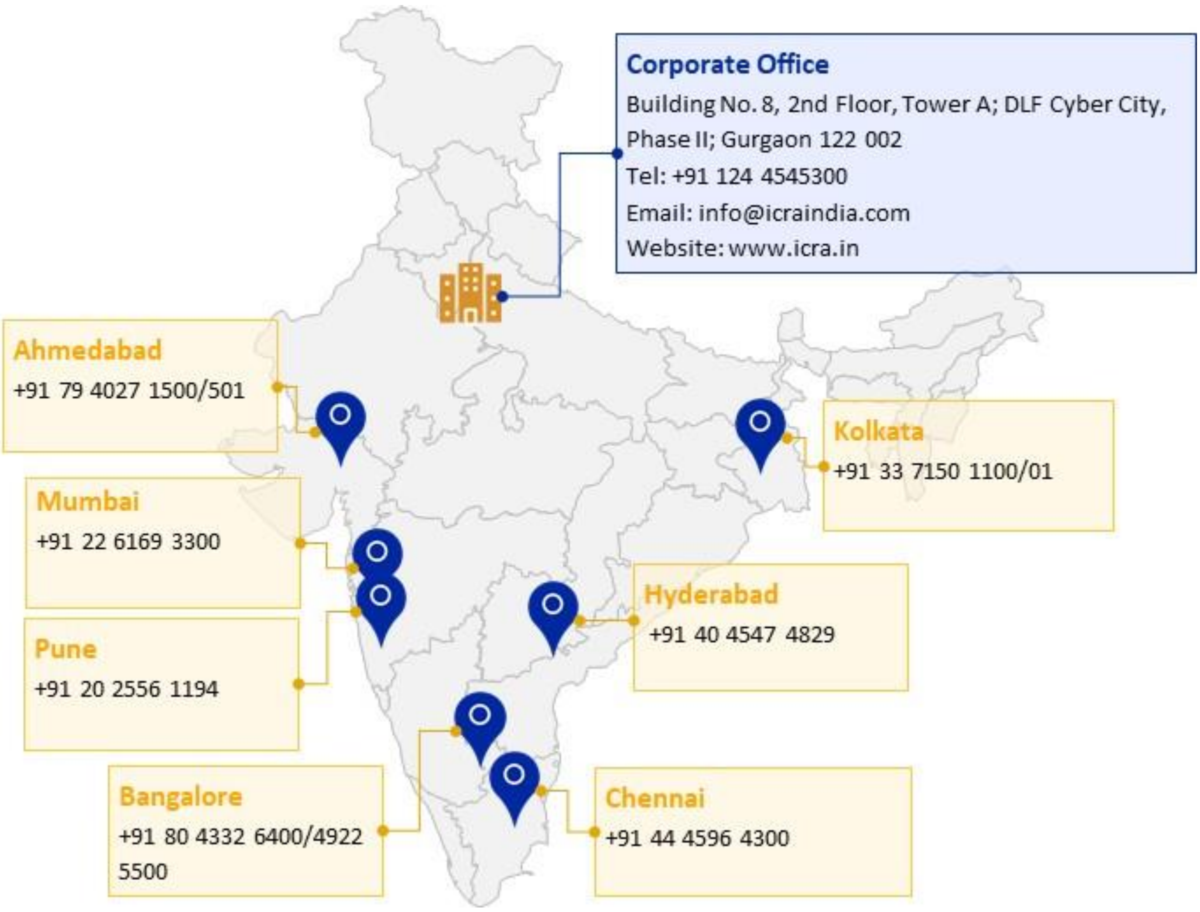

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