

SBI Life Insurance Company Limited

May 17, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Claims paying ability rating	-	iAAA; reaffirmed

Rating action

ICRA has reaffirmed the iAAA (pronounced I triple A) claims paying ability rating of SBI Life Insurance Company Limited (SBI Life)¹.

Rationale

The claims paying ability rating takes into account the ownership structure of SBI Life with State Bank of India (SBI; rated [ICRA]AAA with a Stable outlook) and BNP Paribas Cardiff (BNP) being the two joint venture partners. The existence of a shared brand name strengthens ICRA's assumption that SBI Life is likely to receive timely and adequate support from SBI. The company also leverages SBI's deep branch network to generate strong business flow at relatively lower costs through the bancassurance channel. SBI Life's strategic importance to SBI Group is reflected in the presence of SBI management on the company's board. SBI Life's other parent, BNP, extends its strong operational and risk management expertise for building robust systems and procedures.

Outlook: Not applicable

Key rating drivers

Credit strengths

Strong capital, technical and operational support from parent companies -SBI and Cardif held 62% and 22%, respectively, in SBI Life as on December 31, 2017. The majority shareholder, SBI, is the largest publicsector bank in India with a network of 22,500 branches across the country. The bank is also the exclusive bancassurance partner of SBI Life, which provides the company withwide reach as well as cost efficiency.BNP Paribas Cardif is a recognised global specialist in personal insurance, serving 100 million clients in 36 countries with strong positions in three regions – Europe, Asia and Latin America. At a higher level, Cardiff is involved in management training and shares its global expertise and best practices with SBI Life. ICRA notes that capital infusion will be forthcoming when required.

Leading player in retail segment among private peers with increasing focus on protection products -SBI Life is the second-biggest life insurer in the country on the basis ofgross written premium (GWP), with TotalNew Business Premium (NBP) market share of 18.5% (2nd highest) in the private sector as on March31, 2018. The three largest private life players - SBI Life, ICICI Pru and HDFC Life - enjoy as much as a 53% share of the private sector market in FY 2018 that has close to two dozen players. Individual products form 80% of the NBP (up from 64% in FY2017). SBI Life is also increasing its focus on protection products (23% NBP growth in FY2018 over FY2017) though the growth is below what the company had envisaged earlier. While the capital-intensive nature of protection products leads to higher expenses in the initial period, overall profitability is higher duringthe product's lifecycle.

¹For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

Expansive multi-channel distribution with pan-India bancassurance channel and high agent productivity -The company capitalises on the extensive reach of SBI, which has an exclusive tieup with SBI Life for the sale of insurance products. In 9M FY2018, the share of bancassurance in individual premium sourced was 69%. Significant volume in SBI Life's bancassurance channel comes from SBI bank. SBI Life was able to leverage cost synergies on the back of the strong bancassurance channel and the shared infrastructure with the parent, SBI. The Agency channel of the company has the most productive agents amongst all private insurers. SBI Life is also looking to diversify its distribution sources in the long term.

Comfortable solvency parameters—The company's solvency stood at 206% as on March 31, 2018, as against the minimum regulatory requirement of 150%. It is at a comfortable level to support the growth at current levels, in the medium term. ULIP, which forms the most significant portion of the business, requires less capital allocation compared to protection. SBI Life has an internal target of 180%, below which it would look at recapitalisation plans. There are no short-term plans to raise additional capital.

Healthy profitability, persistency and expense indicators – Being a company that is now focussing on profitable growth, SBI Life recorded a profit of Rs. 1,150 crore in FY2018, up 20.5% from FY2017. In FY2018, value of new business (VNB) margin increased to 16.2% from 15.4% in FY2017. FY2018 saw the company clocking robust VNB growth of 34% to ~ Rs. 1,390 crore from ~ Rs. 1,040 crore. Embedded value (EV) grew at a CAGR of 23% between FY2016 and FY2018 to Rs. 19,070 crore. The total operating expense ratio² for 9M FY2018 was 15.1% which is one of the best in the industry. ULIP surrender ratio declined to 7.2% in FY2018 from 8.7% in FY2017. 13th month persistency rose to 83% in FY2018 from 81% in FY2017. RoE remained stable at 19% in FY2018 (compared to 19% in FY2017).

Effective risk management –SBI Life is the first insurance company in India to have complied with the recommendations of ISO 31000 2009 for enterprise risk management practices and systems and all its processing centres are ISO 9001:2008 certified. It undertakes an economic capital assessment process periodically, quantifies various risks, allocates capital for each risk to assess capital adequacy on an economic basis and monitors concentration of risk in specific areas. ICRA notes the robust risk management controls and processes at SBI Life, which are also factored into the assigned rating.

Credit challenges

Ability to profitably grow protection business, which historically has a low adoption rate in the country - SBI life will benefit from a higher growth in its protection portfolio for attaining value accretion as the company already has a lean cost structure. The business has shown strong growth in the last few years, albeit on a smaller base, which is expected to moderate in the medium term. The protection business, which formed 5% of the total NBP in FY2018, has low adoption in the country compared to savings. Hence, the ability to scale up the portfolio to a sizeable proportion would be a key point to monitor, given the preference of Indian customers for savings products.

Maintaining a balanced portfolio of volume-generating (ULIPs) and high-margin (group credit life) products - The ability to continue to grow its product portfolio, achieve an increase in the relative proportion of high-margin products in its new business, such as pure protection products, will be a key point to monitor, which will also affect the company's market position, profitability and the VNB.

²Calculated as – [(operating expenses related to insurance + net commissions + provisions & bad debts written off + Service Tax/GST on charges: from L1 public disclosures) + (expenses not directly related to insurance + provisions & bad debts written off: from L2 public disclosures)] / GWP

Evolving regulatory changes may lead to adverse impact on industry growth and future prospects –SBI Life operates in a regulated industry and any change in regulations or any regulatory action against the company, its agents and other intermediaries could have an adverse effect on the business, its prospects, financial condition and results of operations.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Methodology for claims paying ability ratings for Domestic Life Insurance Companies](#)

About the company:

SBI Life Insurance is a joint venture life insurance company between State Bank of India (SBI), the largest state-owned banking and financial services company in India, and BNP Paribas Cardif SA, with SBI holding a 62% stake and BNP Paribas Cardif 22%. SBI Life was the first private sector insurer to achieve breakeven in FY2006, primarily leveraging SBI's branch network to reduce its distribution costs. SBI has the largest bank distribution network in India. BNP is the third-largest life insurance company in France, and a worldwide leader in creditor insurance products, offering protection to over 90 million clients. BNP operates in 37 countries mainly through the bancassurance and partnership models.

During FY2018, SBI Life reported a net profit of Rs. 1,150 crore on total GWP of Rs. 25,350 crore with a solvency margin of 2.06 times.

Key financial indicators (Audited)

	FY2016	FY2017	9MFY2017 (unaudited)	9MFY2018 (unaudited)
Gross Direct Premium	15,825	21,015	13,622	16,064
Income from Investment and Fees	3,779	9,835	6,314	8,132
Total Operating Expense ³	2,619	2,922	2,031.10	2,427
PAT	861	955	619	769
Total Net Worth	4,733	5,552	5,338	6,435
Total Policy holders + Shareholders Investments ⁴	41,821	51,257	48,417	57,372
Total Operating Expense Ratio	16.5%	13.9%	14.9%	15.1%
Return on Equity	20%	19%	16%*	17%*
13 th month persistency ratio	80.69%	81.07%	79.81%	81.51%
61 st month persistency ratio	53.78%	67.18%	69.59%	59.48%
Regulatory Solvency ratio	2.12	2.04	2.09	2.06

Amounts in Rs. crore

*9M returns are annualised

³Total Operating Expense = (operating expenses related to insurance + net commissions + provisions & bad debts written off + Service Tax/GST on charges: from L1 public disclosures) + (expenses not directly related to insurance + provisions & bad debts written off: from L2 public disclosures)

⁴ Does not include assets held to cover linked liabilities

*9M returns are annualized

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	FY2018	FY2017	FY2016
					May-18	May-17	Apr-16	Apr-15
1	Claims paying ability	Long Term	-	-	iAAA	iAAA	iAAA	iAAA

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in.

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Claims paying ability	NA	NA	NA	NA	iAAA

Source: SBI Life Insurance Company Limited

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