July 31, 2020

# ICICI Lombard General Insurance Company Limited: Claims paying ability rating withdrawn

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Claims paying ability | - | - | iAAA; withdrawn |
| Subordinated debt programme | 485 | 485 | [ICRA]AAA (Stable); outstanding |
| **Total** | **485** | **485** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating takes into account the shareholding pattern of ICICI Lombard General Insurance Company Limited (ICICIL), given the presence of a strong parent (51.89% stake held by ICICI Bank Limited (ICICI Bank; rated [ICRA]AAA (Stable)). The presence of a shared brand name strengthens ICRA's expectation that ICICIL will receive capital support from its parent as and when required. While the subordinated debt instrument cannot be serviced if the regulatory solvency requirements are breached, ICRA takes note of the company's current solvency indicators and its policy as well as its track record of maintaining adequate cushion in the solvency levels to take care of any exigencies. ICRA further expects that the standing of ICICI Bank, in the Indian capital markets, places a strong onus on the parent to ensure that it meets all the required regulatory requirements (on a continual basis) for the timely and adequate servicing of the debt obligations with respect to the rated instrument.

The rating takes into account ICICIL's standing as India's leading private sector general insurer, its strong financial performance, prudent risk management practices and adequate reserve against claims. While a few segments of the industry have seen pricing pressure, ICRA notes the cautious call taken by the company to reduce its exposure to the crop segment. In the wake of the Covid-19 pandemic, ICRA expects the industry's (including ICICIL) claims ratio to rise in H1 FY2021, particularly for the health and travel insurance segments. The impact of the same on the company's premium growth and underwriting performance amid the changing industry dynamics would remain a key monitorable.

The credit rating also factors in the key features of the rated instrument, in line with the applicable guidelines for subordinated debt:

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

ICRA has withdrawn the claims paying ability rating of ICICIL. The withdrawal is in line with the SEBI notification dated May 30, 2018, wherein a credit rating agency cannot offer claims paying ability rating services. Hence, the rating on ICICI Lombard General Insurance Company Limited's claims paying ability has been withdrawn as per ICRA's rating withdrawal policy.

# Key rating drivers and their description

## Credit strengths

**Strong financial strength of parent company** – The majority shareholder, ICICI Bank Ltd, is one of the largest private sector banks in India with a network of 5,275 branches spread across the country as on December 31, 2019. The bank is also ICICIL's exclusive bancassurance partner, which provides the company with a wide reach as well as cost efficiency. ICICI Bank also has a strong brand and a standing in the capital market. This is leveraged by ICICIL in terms of a shared brand name. In addition, ICICIL benefits from a strong and experienced management team as well as board representation by senior executives of the parent company.

**Strong solvency level** – ICICIL reported a solvency ratio of 2.50 times as on June 30, 2020 (vis-à-vis 2.20 times as on June 30, 2019, which was partly supported by the issuance of subordinated debt in FY2017). Further, the company has been maintaining adequate reserves against the claims to be paid. ICRA also notes that the solvency levels are comfortable even after the average dividend payout ratio of ~25% in the last two years.

**Balanced portfolio across retail and corporate segments** – ICICIL's products are relatively well diversified with the FIRE segment comprising the majority at 26% of the gross direct premium income (GDPI) in Q1 FY2021. ICICIL is the leading private general insurer in the country. The company saw a decline of 5% YoY in the total GDPI in Q1 FY2021, in line with the decline in the industry's GDPI of 4% due to Covid-19. The motor insurance (including motor – own damage (OD) and motor – third party (TP) segments) continues to be the largest contributor, accounting for 35% of the total GDPI in Q1 FY2021 (43% in Q1 FY2020). The reduction in the motor and crop insurance GDPI along with high growth in FIRE (on account of rate hike) led to an increase in the FIRE segment's GDPI share in Q1 FY2021. The company also has a well-diversified distribution channel.

**Improving underwriting performance aided by investment income** – Although ICICIL is yet to report a sustained underwriting surplus, it reported an underwriting profit of Rs. 38 crore in Q1 FY2021 (underwriting loss of Rs. 45 crore in Q1 FY2020). The underwriting performance, which has been a focus area for the company, has seen a gradual but continuous improvement over the last couple of years. The primary reason for the improvement was the lower combined ratio of 99.7% in Q1 FY2021 against 100.4% in Q1 FY2020. While the claims ratio declined to 69.8% from 75.5%, the expense ratio increased to 25.3% from 22.7% during this period (on the back of higher marketing expenses and increased headcount). The improvement in the underwriting performance was further bolstered by the investment portfolio related income (total investment & trading income), which stood at Rs. 508 crore in Q1 FY2021 (Rs. 536.7 crore in Q1 FY2020). This, along with the lower tax, resulted in an improvement in the net profit to Rs. 398 crore in Q1 FY2021 (28% YoY growth over Rs. 310 crore in Q1 FY2020), translating into a return on equity* (RoE) of 24.5% in Q1 FY2021 (21.9% in Q1 FY2020).

## Credit challenges

**Intense competition in industry** – ICICIL faces stiff competition from private as well as public sector general insurance companies in India. The industry has witnessed price wars across business segments, resulting in high loss ratios and underwriting losses for most of the companies. ICICIL's ability to maintain its market share amid rising competition is to be seen. As on June 30, 2020, ICICIL had a market share of 8.5%[1].

[1] *Market share excluding specialised insurance companies (AIC and ECGC)*

## Liquidity position: Strong

The company had liquid assets of Rs. 28,495 crore (sum of total investments less haircuts estimated by ICRA, plus cash and bank balances plus net due from insurance companies) as of March 31, 2020, against which it had a total liability of Rs. 23,846 crore (total technical reserve plus debt due in the next one year). Moreover, the business generated in FY2020 would provide liquidity cushion. The total claims paid in FY2019 and FY2020 stood at Rs. 6,308 crore (24% of liquid assets) and Rs. 6,852 crore (24% of liquid assets on an annualised basis), respectively.

As of June 30, 2020, ICICIL's estimated liquid assets were Rs. 30,849 crore against total liabilities of Rs. 23,800 crore while total claims paid in Q1 FY2021 stood at Rs. 1,622 crore (5% of liquid assets). ICRA does not foresee any liquidity risk for the company in the near-to-medium term.

## Rating sensitivities

**Positive triggers** – Not applicable

**Negative triggers** – The rating or the outlook could be revised if there is a downward revision in the rating of the promoter (ICICI Bank) or a decline in the strategic importance of ICICIL to its promoter or a decline in the expectation of support from the promoter. In addition, a decline in the company's solvency ratio to less than 1.7 times on a sustained basis could lead to rating downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | ICRA's Credit Rating Methodology for rating hybrid debt instruments issued by insurance companies<br>Impact of Parent or Group Support on an Issuer's Credit Rating<br>ICRA's Policy on Withdrawal and Suspension of Credit Rating |
| Parent/Group Support | Parent/Investor: ICICI Bank Limited<br>The rating considers the financial and management support received by ICICIL from its parent in the form of senior management deputation and board representation. The rating also factors in the company's strong ability to leverage ICICI Bank's wide branch network for the distribution of insurance policies. ICRA notes the shared brand name and past capital support provided by the promoter, indicating implicit support. |
| Consolidation/Standalone | The rating is based on the standalone financial statements of the issuer. |

## About the company

ICICIL is a publicly listed general insurance company. ICICI Bank is a promoter and holds 51.89% of the outstanding shares. ICICIL offers a comprehensive and well-diversified range of products, including motor, health, crop/weather, fire, personal accident, marine, engineering and liability insurance, through multiple distribution channels. ICICIL is a leading private sector general insurance company with a market share of 8.5% in Q1 FY2021.

In Q1 FY2021, ICICIL reported a net profit of Rs. 398 crore (Rs. 310 crore in Q1 FY2020) on a GDPI of Rs. 3,302 crore (Rs. 13,313 crore in FY2020) with a reported total net worth[@] of Rs. 6,496.1 crore.

** Includes fair valuation change*

## Key financial indicators (audited)[2]

| Key Parameters | Mar-18 | Mar-19 | Mar-20 | Jun-20 |
|---|---|---|---|---|
| Gross Direct Premium | 12,356.9 | 14,488.2 | 13,312.8 | 3,302.2 |
| Total Underwriting Surplus/(Shortfall) | (230.9) | (169.6) | (105.2) | 38.2 |
| Total Investment & Trading Income | 1,532.6 | 1,795.5 | 2,007.0 | 508.5 |
| PAT | 861.8 | 1,049.3 | 1,193.8 | 398.1 |
| Total Net Worth@ | 5,275.0 | 5,658.9 | 5,705.6 | 6,496.1 |
| Total Technical Reserves | 20,353.8 | 22,026.6 | 23,845.5 | 23,800.0 |
| Total Investment Portfolio | 18,192.7 | 22,230.8 | 26,326.7 | 28,118.0 |
| Total Assets | 29,749.6 | 33,402.6 | 37,042.1 | 36,932.1 |
| Return on Equity@ | 16.3% | 18.5% | 20.9% | 24.5% |
| Gearing@ | 0.09 | 0.09 | 0.09 | 0.07 |
| Combined Ratio* | 100.2% | 98.8% | 100.4% | 99.7% |
| Regulatory Solvency Ratio | 2.05 | 2.24 | 2.17 | 2.50 |

*Amount in Rs. crore*
*Source: Company & ICRA research*
**Combined ratio: (net claims incurred/net premium earned) + (Operating expenses + net commission expenses)/ net premium written*
*@ Includes fair valuation change*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

| | Instrument | Current Rating (FY2021) | | | | FY2021 | Chronology of Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding | 31-Jul-20 | | FY2020 | FY2019 | FY2018 |
| | | | | | | 23-Apr-20 | 23-Apr-19 | 13-Apr-18 | - |
| 1 | Claims Paying Ability | Long Term | - | - | iAAA; withdrawn | iAAA; reaffirmed | iAAA | iAAA | - |
| 2 | Subordinated Debt | Long Term | 485 | 485 | [ICRA]AAA (Stable) | [ICRA]AAA (Stable); reaffirmed | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | - |

*Amount in Rs. crore*

## 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

[2] *Standalone*

## Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| INE765G08012 | Subordinated debt | 28-Jul-2016 | 8.25% | 28-Jul-2026* | 485.00 | [ICRA]AAA(stable) |

**ICICI Lombard has a call option, which is exercisable 5 years after the date of allotment*
*Source: ICICIL*

## Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| NA | NA | NA |

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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

## ICRA Limited


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