

December 17, 2021

## PNB MetLife India Insurance Company Limited: [ICRA]AA+(Stable) assigned to subordinated programme

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Subordinated Debt programme	400.00	[ICRA]AA+(Stable); assigned
<b>Total</b>	<b>400.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA assigns a rating of [ICRA]AA+ (pronounced ICRA double A plus) to the subordinated debt programme of PNB MetLife India Insurance Company Limited (PNB MetLife). The outlook on the long-term ratings is Stable.

The assigned rating and outlook take in to account the strong promoter profile of Punjab National Bank (PNB, rated [ICRA]AA+(Stable)) holding 30.00% stake and MetLife International Holdings LLC (MIHL, part of MetLife Inc. – rated Moody's A3) holding 32.05% stake<sup>1</sup> in the PNB MetLife India Insurance Company Limited (PNB MetLife) as on September 30, 2021. ICRA notes on the strategic importance of PNB MetLife to MetLife Group, as demonstrated by the significant amount of investment done by the MetLife Group since inception of PNB MetLife. Further, MetLife Group has entered into an agreement with certain existing shareholders of PNB MetLife in October 2021, to acquire around 15% additional stake in the company, thereby increasing its overall stake to around 47% and reinforcing its view on the long-term profitability of the entity. ICRA believes that the sharing of promoters' brand names and the representation of promoters in the PNB MetLife's board of directors, indicates a high probability of a timely capital infusion, if required. ICRA also notes the strategic and operational support provided by the promoters including product strategy. PNB MetLife's solvency levels are comfortable (180% as on September 30, 2021), and act as a buffer to absorb the vulnerability related to claims and capital market volatility. ICRA also takes comfort from PNB MetLife's diversified product offering and healthy profitability with value of new business (VNB) margin of 21.7% in FY2021, though net profit was impacted in Q1 FY2022 due to higher Covid related death claims, which were in-line with the industry. The company has created additional mortality provision of Rs. 240 crore as on September 30, 2021.

However, the ratings are constrained by the moderate scale of operations with market share of 0.72% in FY2021 in terms of new business premium (NBP). PNB MetLife's premium growth over the last five years has been in line with the industry, however the share of protection and pension business increased to 26% and 7% respectively as on March 31, 2021 (16% and 3% respectively as on March 31, 2017). ICRA also notes that PNB MetLife, like industry, might experience higher claims and business growth might get impacted in the near term due to the Covid-19 pandemic. ICRA notes that the overall impact of Covid claims on the solvency profile remains manageable. Maintaining growth resilience in a capital market downcycle and scaling up the protection portfolio, while managing the death claims and overall profitability are key rating points.

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 regulator<sup>2</sup>
- » In case the interest payouts were to lead to a net loss or an increase in the net loss, prior approval of the regulator would be required to service the debt

<sup>1</sup> MIHL has entered into share purchase agreement to acquire additional 15.27% stake of Elpro and IGE in PNB MetLife.

<sup>2</sup> As per Insurance Regulatory and Development Authority of India (IRDAI) regulations, insurers are required to maintain a minimum solvency ratio of 150%.

## Key rating drivers and their description

### Credit strengths

**Strong promoter profile** – MIHL and PNB held 32.05% and 30.00% stake respectively in PNB MetLife as on September 30, 2021. MIHL has further entered into a share purchase agreement in October 2021 with IGE (India) Private Limited (“IGE”) and Elpro International Limited to acquire substantial shareholding of 15.27% in PNB MetLife. The transaction is subject to all the necessary regulatory approvals and post completion of stake purchase, MIHL will hold over 47% stake in PNB MetLife. MIHL is a part of the MetLife Group whose ultimate parent company is MetLife Inc. (rated Moody’s A3). ICRA notes on the strategic importance of PNB MetLife to MetLife Group, as demonstrated by the significant amount of investment done by the MetLife Group since inception of PNB MetLife. Further, MetLife Group has entered into an agreement with certain existing shareholders of PNB MetLife in October 2021, to acquire around 15% additional stake in the company, thereby increasing its overall stake to around 47% and reinforcing its view on the long-term profitability of the entity. ICRA also notes the strong credit profile of the operating subsidiaries of the MetLife Group - Metropolitan Life Insurance Company (Moody’s Aa3), American Life Insurance Company (Moody’s A1) and Metropolitan Tower Life Insurance Company, (Moody’s Aa3).

PNB MetLife has access to brand name of MetLife and PNB through royalty-free agreement with the promoters. Further, PNB and MetLife have four representatives each on the board of PNB MetLife. PNB MetLife has access to MetLife’s global insurance expertise and works closely on areas including but not limited to sales best practices, customer and employee engagement, governance frameworks, technology support, digital initiatives, actuarial practices and underwriting expertise. In terms of operational support from PNB, PNB MetLife has access to its wide branch network and consequently around 47% of NBP in FY2021 was sourced through PNB. ICRA expects that capital support will be forthcoming from the promoters, as and when required, and the company is likely to benefit strategically from its MetLife’s experience along with the leveraging of the huge branch network of PNB to source business.

**Diversified product offering** – PNB MetLife has diversified product offering across the savings and protections businesses. Non-participating business formed 33% of NBP in FY2021 followed by the protection business forming 26%, unit-linked insurance plan (ULIP) business forming 19%, participating business forming 15% and pension business forming 7% of NBP in FY2021. With diversified product mix in place and increased penetration in the distribution network, the company delivered compounded annual growth rate (CAGR) of 17% between FY2017 – FY2021. PNB MetLife has grown its protection and pension business at much faster rate compared to the savings, resulting in to decline in the savings business to 67% of NBP in FY2021 from 82% in FY2017.

**Adequate capitalisation** – PNB MetLife’s solvency remained comfortable between 190% to 200% between FY2017 - FY2021 supported by healthy internal accruals. Solvency declined to 180% as on September 30, 2021, though remained adequate compared to the minimum regulatory requirement of 150%, primarily due to higher Covid related claims resulting in to net losses in H1 FY2022. Further, the planned sub-debt raise is expected to enhance the solvency position of PNB MetLife by 30%-40%. ICRA does not expect incremental capital requirement, as the solvency ratio is expected to remain adequate to support growth in the medium term. However, the capitalisation profile is exposed to the higher-than-expected claims during the pandemic, extreme volatility in the capital markets impacting the valuation of the equity investments and sustained aggressive growth in the protection business.

**Healthy VNB margins, though overall profitability impacted by higher Covid claims** – The VNB margin, which is a better profitability indicator in the life insurance business, improved to 21.7% in FY2021 (17.1% in FY2018). The improvement was led by the changes in the product mix (increasing mix of protection and non-participation businesses) and improving operating efficiencies. The net profitability of PNB MetLife is supported by investment income representing around 25-30% of the total operating revenues. Total investments stood at Rs. 31,211 crore as on September 30, 2021 and grew at CAGR of 17% between FY2017-FY2021. Debt securities form 79% of the total investments as on September 30, 2021, of which 97% comprised AAA /

sovereign securities. ICRA takes comfort from the PNB MetLife's healthy investment book with fully provided non-performing assets, its' ability to earn adequate yields and gains from investments and hedging practice for its guaranteed saving business.

PNB MetLife reported return on equity (RoE) of 7.3% in FY2020 and 7.4% in FY2021 compared to 14.1% and 12.5% in FY2018 and FY2019 respectively. With increase in share of the protection business, reserving requirement grew during FY2020 and FY2021, resulting in to lower profitability. Besides, the net Covid claims spiked across the industry in Q1 FY2022, with rising infections during the second wave of the pandemic. The company incurred net Covid claims of Rs. 272 crore in H1 FY2022 compared to Rs. 58 crore in FY2021, while it held additional mortality provision of Rs. 240 crore for future Covid related claims as on September 30, 2021. Consequently, it incurred net loss of Rs. 101 crore in H1 FY2022.

## Credit challenges

**Moderate scale of operations** – PNB MetLife's NBP has grown at CAGR of 15% between FY2017 – FY2021, though it remained largely in line with the industry. PNB MetLife's operations remain modest with a market share of 0.72% in FY2021 in NBP terms. PNB MetLife's participating business declined over the years, while the company could grow the linked business and the protection business. ICRA believes that to maintain the business growth above the industry, PNB MetLife will require deeper penetration and widening of its distribution network, product development and continuous investments in the technology and marketing expenses. The company's ability to maintain high business growth with healthy return ratios in the wake of rising competition and ever-evolving regulatory requirements remains a monitorable.

**Ability to grow and maintain profitability in protection business** – The company's share of the protection business was at 26% of NBP in FY2021 growing from 16% of NBP in FY2017. The increasing share of the protection business is expected to create the significant value accretion as the VNB margins on the protection products, are typically the highest amongst the life insurance product suite. The increase in the protection business share was largely due to an increase in the group credit life business. ICRA notes the capital-intensive nature of the protection business and the profitability of the protection business is a function of the claims and the persistency levels. Hence, the ability to scale up the portfolio to a sizeable proportion in a small market, while managing the product pricing and death claims, is a key monitorable.

## Liquidity position: Strong

The company had a liquidity buffer of Rs. 28,235 crore (calculated as liquid investments, adjusted for haircuts and stressed investments and cash & bank balance) as of September 30, 2021. In FY2021, actual benefits/claims paid stood at Rs. 2,512 crore, amounting to 12% of the policy and linked liabilities as on March 31, 2020 (policy and linked liabilities were Rs. 26,408 crore as of March 2021). PNB MetLife has no outstanding debt as on September 30, 2021. ICRA does not foresee any liquidity risk in the near term.

## Rating sensitivities

**Positive factors** – The rating could be revised if there is a substantial and sustained improvement in the company's market share and profitability, leading to an improvement in its financial risk profile.

**Negative factors** – The outlook or the rating could be revised in case of a deterioration in the credit profile of MetLife Group, a significant change in the company's shareholding or in its linkages with the MetLife Group. 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	<a href="#">Life Insurance</a> <a href="#">Rating Approach - Hybrid instruments issued by insurance companies</a> <a href="#">Rating Approach - Implicit parent or group support</a>
Parent/Group Support	Parent/Investor: MetLife Group The rating considers the financial and management support received by PNB MetLife from its parent in the form of board representation, operational and financial support. ICRA notes the shared brand name and considerable shareholding from the promoter, indicating implicit support from the parent.
Consolidation/Standalone	Standalone

## About the company

PNB MetLife India Insurance Company Limited (PNB MetLife) was incorporated in April 2001 with promoters - MetLife International Holdings LLC holding 32.05% stake and PNB holding 30% stake as on September 30, 2021. MetLife is among the largest global providers of insurance, annuities, and employee benefit programs, with presence in over 40 markets. Through its subsidiaries and affiliates, MetLife holds leading market positions in the United States, Japan, Latin America, Asia's Pacific region, Europe, and the Middle East. PNB is the second largest public sector bank in terms of business and branch network. PNB MetLife's comprehensive product portfolio comprises of retail and group products and riders, catering to the various needs of the customers. PNB MetLife distributes wide range of protection and retirement products through its agency sales of over 9,200 financial advisors and multiple bank partners and provides access to employee benefit plans for approximately 700 corporate clients in India. PNB MetLife is present in 112 locations across the country with access to over 206 million customers in around 15,000 locations through its strong bank partnerships with PNB, JKB, KBL and other bank partners.

## Key financial indicators (audited)

PNB MetLife	FY2019	FY2020	FY2021	H1 FY2021	H1 FY2022
Gross Direct Premium	4,777	5,507	6,033	2,222	2,855
Income from Investments, Fees and other income	1,708	471	3,744	1,681	2,121
Total Operating expenses	1,168	1,230	1,362	568	671
PAT	143	93	101	28	(101)
Total Net Worth including fair value change account and revaluation reserve	1,219	1,307	1,422	1,343	1,321
Total Policyholders' + Shareholders' Investments (excluding assets held to cover linked liabilities)	13,813	17,122	21,288	18,926	23,291
Assets Held to Cover Linked Liabilities	6,540	5,269	6,962	5,944	7,920
Operating Expense Ratio (opex / NPW)	25.1%	23.0%	23.4%	26.7%	25.1%
Return on Equity	12.5%	7.3%	7.4%	2.1%	-7.4%
13 <sup>th</sup> Month Persistency Ratio	80.2%	73.7%	76.1%	76.1%	77.9%
61 <sup>st</sup> Month Persistency Ratio	29.3%	29.8%	36.2%	32.6%	40.0%
Regulatory Solvency Ratio	197%	189%	190%	197%	180%

Source: Company, ICRA Research; Amount in Rs. crore

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

## Any other information: None

## Rating history for last three years

Instrument	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1 Subordinated Debt programme	Long Term	400.00	400.00	Dec 17, 2021 [ICRA]AA+ (Stable)	NA	NA	NA

## Complexity level of the rated instrument

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-1: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Not yet placed	Subordinated Debt Programme	NA	Na	NA	400.00	[ICRA]AA+(Stable)

Source: Company

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

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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### Branches



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