October 12, 2022(Revised)

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 takes into account ICICI Prudential Life Insurance Company Limited's (ICICI Pru) strong promoter profile, with ICICI Bank Limited {ICICI; rated [ICRA]AAA (Stable)} holding a 51% stake and Prudential Corporation Holdings Limited holding 22%. The rating factors in the strategic importance of ICICI Pru to ICICI and the shared brand name, which strengthens ICRA's expectation that ICICI Pru is likely to receive timely and adequate support from ICICI.

The rating also factors in ICICI Pru's market position as the third largest private life insurer in the country in terms of the retail weighted average premium. ICICI Pru has a diversified product offering and distribution network and ICRA expects it to maintain a healthy market position, thereby enabling operating efficiency and healthy value of new business (VNB) margins. The rating is also supported by the comfortable solvency level, which acts as a buffer to absorb any vulnerability related to claims and capital market volatility.

ICRA notes that while ICICI Pru's value of new business (VNB) grew by 33% y-o-y in FY2022, profit after tax (PAT) was impacted due to higher Covid claims and higher reserving requirement with the increase in the non-participating (non-par; including protection) businesses. As the non-par segment is in the growth stage, incremental reserving requirement on new business from this segment is expected to remain high; it is, however, likely to be offset by the surplus generated from the other business segments. The profitability and solvency may remain susceptible to changes in the actuarial assumptions, driving long-term changes in the reserving requirements.

The Stable outlook factors in the strong brand and distribution franchise of ICICI Pru, which will enable it to maintain its leading 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 and Prudential held 51.3% and 22.1%, respectively, in ICICI Pru as on June 30, 2022. The majority shareholder, ICICI, is one of the largest private sector banks in India with a network of 5,534 branches across the country. ICICI Pru benefits from the strong brand recognition of ICICI, as it is the life insurance subsidiary of ICICI Bank. ICICI Bank is the exclusive bancassurance (banca) partner of ICICI Pru, which provides it with access to a large customer base. The strong parentage and shared brand name with ICICI strengthen ICRA's expectation that the company will receive timely support if required. The foreign partner, Prudential Corporation Holdings Limited is an indirect wholly owned subsidiary of Prudential plc. Prudential plc provides life and health insurance and asset management in Asia and Africa.

Established market position; diversified product offering – ICICI Pru is a well-established player in the life insurance space. It is the third largest private life insurer with a market share of 7.2% in FY2022 (7.2% in FY2021) on retail weighted average premium (RWRP) basis in the industry. On a year-on-year (YoY) basis, the annual premium equivalent (APE)[1] grew by 20% in FY2022 and 25% in Q1 FY2023.

The company has a diversified product offering across the savings and protection businesses. While its product mix was previously concentrated towards unit linked insurance plans (ULIPs; 48% of APE in FY2022 compared to 80% in FY2019), it has been diversifying into the mass affluent and mass customer segments, thereby improving the non-linked savings and protection mix. The share of the non-linked savings business in the overall APE grew to 31% in FY2022 (31% in FY2021 and 17% in FY2020) while the protection business grew to 17% in FY2022 (16% in FY2021 and 15% in FY2020). The growth in protection in FY2022 was largely driven by the group business as the retail segment was impacted by price hikes and stricter underwriting. However given the large under-penetration opportunity, The retail protection business is likely to grow, going forward.

Diversified distribution network – ICICI Pru has a diversified distribution network across banca (39% of APE in FY2022), direct and group channel (28%), agency (24%) and partnerships (9%). Over the last few years, it has expanded its distribution network with reduced dependence on sourcing from ICICI Bank. Within the banca channel, apart from its exclusive tie-up with ICICI Bank, the company has 27 bank partnerships. The banca channel largely originates the linked business (57% of the ULIP APE was sourced through banca in FY2022), leading to a decline in the share of banca (39% in FY2022 from 42% in FY2021). The diversified distribution network is likely to aid ICICI Pru's growth plans with a balanced product mix.

Comfortable capitalisation – ICICI Pru's solvency remained comfortable at 204% as on June 30, 2022 compared to the minimum regulatory requirement of 150%. The company's solvency has been supported by internal accruals. ICRA does not expect incremental capital requirement, as the solvency ratio is comfortable for supporting the growth in the medium term. ICRA also notes the high dividend payout ratio (30%), which can be calibrated, if required to support growth and maintain the solvency.

Healthy VNB margins, though reported PAT impacted by increase in Covid claims and reserving requirement – The VNB margin improved to 28% in FY2022 (25% in FY2021), largely driven by the change in the product mix (increasing mix of group protection and non-linked businesses). The embedded value (EV) stood at Rs. 31,625 crore as on March 31, 2022 (compared to Rs. 29,106 crore as on March 31, 2021).

ICICI Pru reported a return on average equity (RoE) of 8.3% in FY2022 compared to 10.5% in FY2021. The PAT declined in FY2022 largely on account of higher Covid-19-related claims. The profitability was also 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. The company's profitability is supported by the healthy persistency ratios.

ICRA also takes comfort from the strong performance of ICICI Pru's investment book with zero non-performing assets and its ability to earn adequate returns and hedge the interest rate risk for its guaranteed savings business. ICICI Pru's assets under management (AUM) grew 12% to Rs. 2.4 lakh crore as on March 31, 2022 and Rs. 2.3 lakh crore as on June 30, 2022 from Rs. 2.1 lakh crore as on March 31, 2021, supported by the growing cashflows from the business.

Credit challenges

Ability to grow protection and non-par businesses and maintain overall profitability – ICICI Pru has witnessed higher growth in the protection and non-linked non-par businesses in the last three years. The share of the protection and non-linked businesses increased to 17% and 34% of APE, respectively, in FY2022 from 9% and 10%, respectively, in FY2019. The increasing share of these businesses translates into higher reserving requirement for the company in the first year, leading to negative contribution to the overall profitability. However, as these businesses have higher VNB and margins, their increasing share is expected to create significant value-accretion for ICICI Pru. The margin tends to improve with higher persistency levels. The

[1] *APE is the sum of the annualised first year premiums on the regular premium policies and 10 percent of the single premiums, from both individual and group customers*

company's ability to scale up the protection portfolio to a sizeable proportion in an under-penetrated market, while maintaining the product pricing, persistency and death claims settlement ratio, will be a key monitorable. Further, the growth in the non-par guaranteed product, amid rising interest rates for other savings options, is to be seen.

Liquidity position: Strong

The company had a liquidity buffer of Rs. 2.0 lakh crore (calculated as liquid investments, adjusted for haircuts and stressed investments and cash & bank balance) as of June 30, 2022. In FY2022, it received net premium of Rs. 36,321 crore and its actual benefits/claims paid stood at Rs. 29,359 crore. The coupon payment for the subordinated debt programme, which is serviceable through the shareholders' funds is Rs. 82 crore for FY2023 and 90% of the shareholders' funds (Rs. 9,077 crore) has been deployed in liquid investments. ICRA does not foresee any liquidity risk in the near term, either for servicing the debt or the policyholders' claims.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be revised if there is a deterioration in the credit risk profile of the parent company, ICICI, a change in the parentage or a decline in the strategic importance of ICICI Pru to its promoter company or a decline in the expectation of support from the promoter. 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	Life insurance Rating Approach - Consolidation Rating approach - Hybrid instruments issued by insurance companies Rating approach - Implicit parent or group support
Parent/Group support	Parent/Investor: ICICI Bank The rating considers the financial and management support received by ICICI Pru from its parent in the form of board representation. The rating also factors in the company's strong ability to leverage ICICI's wide branch network for the distribution of insurance policies. ICRA notes the shared brand name and past capital support from the promoters, indicating implicit support from the parent
Consolidation/Standalone	Consolidated

About the company

ICICI Prudential Life Insurance Company Limited (ICICI Pru) is promoted by ICICI Bank, which is one of India's largest private sector banks, and Prudential Corporation Holdings Limited (Prudential) – an Asia-led portfolio of businesses focused on structural growth markets. ICICI and Prudential held 51.3% and 22.1%, respectively, in ICICI Pru as on June 30, 2022, while the rest is publicly held.

Incorporated in July 2000, ICICI Pru provides life insurance, pension and health insurance to individuals and groups. The products are offered under the par, non-par, non-par variable and unit-linked lines of business. These are distributed through individual agents, corporate agents, banks, brokers, the company's proprietary sales force and its website. It has a national presence comprising 470 branches and over 2.0 lakh agents as on June 30, 2022.

Key financial indicators (audited)

ICICI Pru	FY2021	FY2022	Q1 FY2022	Q1 FY2023
Gross direct premium	35,733	37,458	6,870	7,265
Income from investments and fees plus realised and unrealised gains /(loss)	48,180	25,856	9,609	(8,495)
Total operating expenses	4,188	5,346	1,038	1,224
PAT	956	759	(185)	157
Net worth (excluding revaluation reserve)	8,470	8,992	8,021	9,077
Total policyholders' + shareholders' investments (excluding assets held to cover linked liabilities)	73,653	87,235	76,080	88,883
Assets held to cover linked liabilities	1,38,549	1,50,866	1,45,085	1,38,851
Total operating expense ratio (opex / NPW)	11.7%	14.3%	15.1%	16.9%
Return on equity	10.5%	8.3%	-8.7%	6.9%
Regulatory solvency ratio	217%	204%	194%	204%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023 Oct 12, 2022	Date & Rating in FY2022 Oct 13, 2021	Date & Rating in FY2021 Oct 14, 2020	Date & Rating in FY2020 -
1	Subordinated debt programme	Long term	1,200.00	1,200.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	NA

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/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE726G08014	**Subordinated debt programme**	Nov 06, 2020	6.85%	Nov 06, 2030	1,200.00	[ICRA]AAA (Stable)

Source: Company

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 levels stipulated by the regulator[2]
- 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

Corrigendum

Updated the link for "Rating Approach-Consolidation" in the analytical approach section on page 3 on the document dated October 12, 2022.

[2] *As per IRDAI regulations, insurers are required to maintain a minimum solvency ratio of 150%*

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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.

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