September 12, 2023

ICICI Lombard General Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt Programme	35.00	35.00	[ICRA]AAA (Stable); reaffirmed
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating factors in ICICI Lombard General Insurance Company Limited's (ICICI Lombard) strong market position with the company being one of the largest private general insurer with a market share of 8.7%[1] in terms of gross direct premium income (GDPI) in FY2023. It has a strong presence across both retail and corporate segments and is a market leader among private insurers in segments such as motor, fire, liability, marine cargo and engineering segment. The company's strong presence is supported by its diversified distribution mix, which has aided growth. ICICI Lombard's capitalisation remains strong with a reported solvency of 2.53 times as on June 30, 2023 (compared to the required regulatory level of 1.50 times), supported by healthy internal accruals. Its profitability remains healthy with an average return on equity (RoE)[2] of 17.5% in the last five years. Given the strong solvency and the expectation that internal accruals will remain healthy, ICRA does not expect any capital requirement for the company in the medium term. ICRA notes the high share of motor-third party (motor-TP; 21.1% of GDPI in FY2023), which exposes the company to reserving risks as this segment is long tail in nature. However, the company's loss-reserving triangle, which involves actuarial estimates, indicates that it has maintained adequate reserves in the past as it has been releasing reserves in the last few years.

The rating also factors in the strong promoter profile with ICICI Bank Limited {ICICI Bank; rated [ICRA]AAA (Stable)} holding an equity stake of 48.01%. Further, ICICI Bank received regulatory approval in August 2023 to increase its shareholding in ICICI Lombard by up to 4.0% in multiple tranches. A stake of at least 2.5% of this 4.0% is likely to be acquired before September 9, 2024. The rating considers the shared brand name, the strategic importance of the company to ICICI Bank and the representation on ICICI Lombard's board of directors, which strengthen ICRA's expectation of adequate and timely capital support if required.

The Stable outlook reflects ICICI Lombard's strong distribution network, which will help it maintain its market position, and the expectation that it will continue to receive support from ICICI Bank and will maintain the solvency level above ICRA's negative triggers.

Key rating drivers and their description

Credit strengths

Strong parentage ensures financial flexibility and managerial support – ICICI Lombard is a publicly listed general insurance company, with ICICI Bank as a promoter, holding 48.01% of the outstanding shares as on June 30, 2023. 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

[1] Industry GDPI excludes specialized insurers ie. Agriculture Insurance Co of India Ltd. and ECGC Ltd.

[2] Return on Equity (RoE) = Profit after Tax / Reported Net Worth

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, the bank had 6,074 branches and 16,731 ATMs. The strong parentage and shared brand name with ICICI Bank strengthen ICRA's expectation that the company will receive timely support if required. In addition, ICICI Lombard benefits from a strong and experienced management team as well as board representation by senior executives of the parent company.

Strong market position with diversified products and distribution channels – ICICI Lombard continues to retain its position as one of the largest private general insurance company with a market share of 8.7% in FY2023 (8.7% in FY2022) in terms of GDPI. The company is a market leader in segments such as motor, fire, liability, marine cargo and engineering segment. ICICI Lombard's products are relatively well diversified, and its key segments include motor, health and fire. The motor segment, though declining in share, continues to be the largest contributor, accounting for 40.8% of the total GDPI in FY2023 compared to 46.1% in FY2022. Driven by significant growth, the share of the health and personal accident segment increased substantially to 26.6% in FY2023 (22.3% in FY2022). Apart from motor and health, the company has a strong presence in the fire segment, which accounted for 14.5% of the GDPI in FY2023.

The company sources its business from different distribution channels, thereby strengthening its business profile. Brokers and direct business contributed 47.0% and 22.5%, respectively, to the GDPI in FY2023. Further, distribution is supported by the company's exclusive partnership with ICICI Bank with bancassurance contributing ~6% to the GDPI.

Strong solvency position, supported by healthy profitability – ICICI Lombard's capitalisation levels remain strong mainly supported by internal accruals (5-year average RoE of 17.5%). Despite an average dividend payout ratio of 25.5% in the last five years, the reported net worth increased at a compound annual growth rate (CAGR) of 17.0% during FY2019-FY2023. The capitalisation profile has been strong without any capital infusion from the promoters in the recent past. The company reported a solvency ratio of 2.53 times as on June 30, 2023, which is significantly above the regulatory requirement of 1.5 times and ICRA's negative trigger of 1.7 times. Further, the limited amount of sub-debt in the current capital structure (against the current headroom of ~Rs. 3,425 crore) provides some financial flexibility. ICRA does not expect any capital requirement as the solvency ratio and expected internal accruals are strong for supporting the growth in the medium term.

The company's profitability remains healthy with a RoE of 16.3% in FY2023 (13.4% in FY2022). Although it has been reporting underwriting losses (combined ratio of 104.5% in FY2023), it continues to perform better than the industry. Investment income earned from the float generated through business (investment leverage[3] stood at 4.15 times as on March 31, 2023) has helped ICICI Lombard report a healthy RoE despite the underwriting losses.

Credit challenges

High share of long-tail business exposes the company to reserving risks – A major risk faced by an insurance company is the underwriting of the business at adequate premium pricing in relation to the risk being underwritten. The uncertainty regarding the extent of claims is relatively higher in the motor-TP segment, which accounted for ~20-23% of ICICI Lombard's total GDPI in the last few years. The long-tail nature of the motor-TP segment, given the legal process involved for claims settlement, could result in uncertainty regarding the level of future claims in relation to the past reserves made for this segment. The company's loss-reserving triangle, which involves actuarial estimates, indicates that it has maintained adequate reserves in the past as it has been releasing reserves in the last few years. However, the eventual outcome for the risk-in-force may be known with considerable lag, which could impact its future profitability and solvency. Further, as the pricing of motor-TP rates is regulated, this could impact the overall GDPI growth.

[3] *Investment leverage = (Total investment less Sub-debt)/Net worth)*

Given the heightened competitive intensity in motor OD, ICRA notes that the company's combined ratio remained elevated in the motor segment. However, the initiatives of select underwriting and pricing increases in the motor segment are likely to improve the profitability of the motor business.

Environmental and social risks

The health, mortgage, and trade credit insurance business undertaken by ICICI Lombard faces low environmental risks, unlike property or asset insurance that is exposed to risks emanating from natural or climate change-related calamities. Such events do pose material risk of elevated claims, higher than those modeled, that could adversely impact financial performance. While the ability of insurers ICICI Lombard to re-price insurance policies on an annual basis somewhat mitigates this risk, the increasing incidences of catastrophe losses linked to climate change add to the underwriting complexity. Climate change contributing to water shortages and droughts can also result in losses in the business relating to agricultural insurance, but this is typically just one among the other lines of business of ICICI Lombard and does not by itself contribute to pushing up credit risk materially.

The social risk faced by ICICI Lombard stems from potential mishandling of sensitive customer data and privacy breaches whose impact on the credit profile could be transmitted from the channel of regulatory penalties or reputation damage. Human capital risks are also reasonably high for general insurance companies like ICICI Lombard with challenges that concern recruiting and retaining key employees.

Liquidity position: Strong

ICICI Lombard's net premium was Rs. 15,540 crore in FY2023 in relation to the maximum net claims paid of Rs. 8,614 crore in the last few years, reflecting strong ability to pay claims from the operating cash flow. In addition, it had investments in Central/state government securities of Rs. 19,352 crore, accounting for 43.1% of the total investments as on June 30, 2023, supporting the liquidity further to meet any unexpected rise in the claims of policyholders. The company's shareholders' investments of Rs. 10,361 crore remained strong in relation to the Rs. 35-crore sub-debt outstanding 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 Lombard to ICICI Bank or in the expectation of support from the promoter. In addition, a decline in the company's solvency ratio less than 1.70 times on a sustained basis could lead to a rating downgrade.

Analytical approach

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

About the company

ICICI Lombard is a publicly listed general insurance company. ICICI Bank is a promoter, holding 48.01% of the outstanding shares. ICICI Lombard 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. It is one of the largest private general insurance company in India with a market share of 8.7% as of March 31, 2023.

Key financial indicators (audited)

ICICI Lombard General Insurance Company Limited	FY2022	FY2023	Q1 FY2023	Q1 FY2024
Gross direct premium	17,977	21,025	5,370	6,387
Total underwriting surplus/(shortfall)	(1,304)	(890)	(193)	(319)
Total investment + Trading income	3,040	3,100	673	824
PAT	**1,271**	**1,729**	**349**	**390**
Total net worth*	9,469	10,606	9,575	11,456
Total technical reserves	32,978	35,636	33,780	37,042
Total investment portfolio	38,786	43,180	39,834	44,905
Total assets	50,848	55,086	52,006	57,770
Return on equity	13.4%	16.3%	14.6%	13.6%
Combined ratio	108.8%	104.5%	104.1%	103.8%
Regulatory solvency ratio	**2.46x**	**2.51x**	**2.61x**	**2.53x**

*Source: ICICI Lombard, ICRA Research; Note: Amount in Rs. crore; All calculations are as per ICRA Research; *Net worth includes fair value change account*

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	Amount Outstanding as of Sep 12, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022			Date & Rating in FY2021
					Sep 12, 2023	Sep 26, 2022	Sep 27, 2021	Aug 26, 2021	May 18, 2021	Apr 23, 2020 Jul 31, 2020 Sep 01, 2020
1	**Issuer Rating**	Long term	-	-	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-
2	**Subordinated Debt Programme (transferred from BAXA-GI)**	Long term	35	35	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-	-	-
3	**Subordinated Debt Programme (transferred from BAXA-GI)**	Long term	-	-	-	**[ICRA]AAA (Stable); reaffirmed and withdrawn**	**[ICRA]AAA (Stable)**	-	-	-
4	**Subordinated Debt Programme**	Long term	-	-	-	-	-	**[ICRA]AAA (Stable); reaffirmed and withdrawn**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated Debt Programme	Moderately Complex
Issuer Rating	Not Applicable

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
INE513L08024	**Subordinated Debt**	Apr-30-2019	10.50%	Apr-29-2029*	35.00	[ICRA]AAA (Stable)
NA	**Issuer Rating**	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: ICICI Lombard, ICRA Research

** 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*

Annexure II: List of entities considered for consolidated analysis - Not applicable

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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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