December 04, 2024

PNB MetLife India 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	400.00	400.00	[ICRA]AA+ (Stable); reaffirmed
Total	**400.00**	**400.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating takes into account PNB MetLife India Insurance Company Limited's (PNB MetLife) strong promoter profile with MetLife International Holdings LLC (MIHL; a part of MetLife Inc.[1] with key operating subsidiary – Metropolitan Life Insurance Company[2]) holding a 46.87% stake and Punjab National Bank[3] (PNB) holding a 30.00% stake as on September 30, 2024. On November 11, 2024, MIHL acquired a 2.04% stake in the company from Oman India Joint Investment Fund II (Oman India), an existing shareholder, thereby increasing its stake to 48.91%.

The rating factors in PNB MetLife's strategic importance to the MetLife Group (the Group), as demonstrated by the significant investment made by the Group since the company's inception, the strong representation on the board and the shared brand name. While the company reported a solvency of 1.71 times as on September 30, 2024, it has the headroom to raise additional sub-debt of ~Rs. 521 crore, which is likely to support its growth plans in the near term. Further, ICRA expects that PNB MetLife will receive timely support from the Group when required. The company also receives strategic and operational support from MIHL, including product strategy. It benefits from PNB's shareholding, given the shared brand name and access to PNB's wide distribution network with the bank contributing 52-53% to the individual new business premium (NBP) over FY2021 to FY2024.

The rating also takes into account the company's diversified product profile, which is likely to support growth. PNB MetLife's 5-year average (FY2020-FY2024) operating return on embedded value (RoEV) remained healthy at 15.5%. The embedded value (EV) increased at a compound annual growth rate (CAGR) of 13.2% during FY2019-FY2024 to Rs. 7,261 crore as on March 31, 2024. The value of new business (VNB), however, declined in FY2024 with the decrease in the VNB margin. VNB growth will incrementally largely depend on annual premium equivalent (APE) growth and improvement in the operating efficiency. The profitability and solvency may also remain susceptible to changes in the actuarial assumptions, leading to long-term changes in the reserving requirements.

The rating is, however, constrained by the company's moderate scale of operations with a market share of 3.1%, in terms of individual APE, and 0.9% on an overall NBP basis in FY2024. The ability to diversify its distribution channels and improve the persistency levels would be a key determinant of improving the overall market position and profitability.

The Stable outlook factors in the expectation that the company will continue to receive support from the parent, if required, and will maintain its solvency level above the negative rating trigger.

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[1] *Rated A3 for senior unsecured debt*

[2] *Rated Aa3 by Moody's Investors Service, basis Insurance Financial Strength*

[3] *Rated [ICRA]AAA (Stable) for Basel III Tier II bonds*

Key rating drivers and their description

Credit strengths

Strong parentage – MIHL and PNB held stakes of 46.87% and 30.00%, respectively, in PNB MetLife as on September 30, 2024. MIHL acquired ~15% from the existing investors in FY2022 and 2.04% in November 2024, increasing its stake to 48.91%. MIHL is a part of the MetLife Group and its ultimate parent company is MetLife Inc. The MetLife Group's operating subsidiaries – Metropolitan Life Insurance Company, American Life Insurance Company[4] and Metropolitan Tower Life Insurance Company – have strong credit profiles. The Group is a leading global provider of insurance and financial services products with PNB MetLife enabling it to establish a foothold in the Indian life insurance business. The rating factors in the strategic importance of PNB MetLife to the Group, which is demonstrated by the significant investment made by it since the company's inception and the shared brand name. This strengthens ICRA's expectation that the company will receive timely support from the Group, if required.

MetLife, along with PNB, has strong representation on PNB MetLife's board. Of the overall board of 16 members, MetLife has six representatives while PNB has four representatives. PNB is the third largest public sector bank in terms of net advances with a distribution network of 10,159 branches, as on September 30, 2024, spread across the country. This enables PNB MetLife to leverage the bancassurance channel to source business, with PNB contributing 52-53% to the individual new business premium (NBP) over FY2021 to FY2024.

PNB MetLife's reported solvency stood at 1.71 times as on September 30, 2024 (1.71 times as on March 31, 2024, and 1.86 times as on March 31, 2023) compared to the regulatory requirement of 1.50 times and ICRA's negative trigger of 1.70 times on a sustained basis. Despite the growth, the company's solvency remained steady over the last one year due to the capital conservation strategy of the management and reduced focus on segments with high capital consumption {protection and non-participating (non-par)}. However, this resulted in a moderation in the VNB margin, and a YoY decline in the VNB in FY2024. To grow its market share across segments, the company would require capital in the near to medium term. It has headroom for raising additional sub-debt of ~Rs. 521 crore as on September 30, 2024, which could boost its solvency to 2.01 times on a pro-forma basis as on September 30, 2024. Further, ICRA expects support from the parent to be forthcoming if required. PNB MetLife's solvency is also aided by the funds for future appropriation (FFA) on the par products. The FFA stood at 25.6% of the company's overall available solvency margin (ASM) as on September 30, 2024.

Diversified product offering – PNB MetLife has a diversified product offering in the individual segment, which stood at 70.4% of the NBP in FY2024, with a presence in the savings as well as protection business. The unit-linked insurance plan (ULIP) business formed 33% of the individual NBP, followed by non-par (31%), par (29%), pension (5%) and protection (2%). Within group, the portfolio largely comprises group protection (both credit life and group term) with a sizeable portion of the credit life business being sourced from PNB (including PNB Housing Finance). However, the group fund business grew significantly in FY2024 and formed 28% of group NBP compared to 18% in FY2023. The product mix is likely to remain diversified with the company looking at growth across segments.

Profitability remains adequate – PNB MetLife reported a net profit of Rs. 276 crore in FY2024 with a return on equity[5] (RoE) of 15.9% (Rs. 112 crore and 7.7%, respectively, in FY2023). Its accounting profitability is supported by the non-par segment while the linked business is in the initial growth phase. The company reported a net profit of Rs. 107 crore in H1 FY2025 compared to Rs. 91 crore in H1 FY2024.

PNB MetLife's absolute VNB has been increasing over the years (Rs. 550 crore in FY2023 compared to Rs. 314 crore in FY2019), mainly driven by APE growth, while the VNB margin remained flattish (21.3% in FY2023 versus 21.1% in FY2019). The VNB,

[4] *Rated as A1 by Moody's Investors Service, basis Insurance Financial Strength*

[5] *Return on equity (RoE) = Net profit / Net worth excluding fair value change account*

however, declined to Rs. 418 crore in FY2024 due to the decrease in the VNB margin to 15.8% in FY2024. The increase in the share of ULIP as well as the decline in the share of the higher-margin individual non-par segment and group protection led to the lower VNB margin. EV increased at a CAGR of 13.2% during FY2019-FY2024 to Rs. 7,261 crore as on March 31, 2024, while the 5-year average RoEV was 15.5%.

The ability to maintain prudent asset-liability management, to mitigate the interest rate risk arising from the deployment of future policy premiums at remunerative rates, and achieve operating experience (such as persistency, mortality, operating costs, and interest rates), in line with the assumptions at the time of policy underwriting, will remain the key driver of long-term profitability and capitalisation.

Credit challenges

Operating expenses relatively higher than peers – The company's operating expense ratio (including commissions) remained high at 22-23% of the gross premium written during FY2021-FY2024 compared to peers due to the relatively lower scale and higher share of individual business. PNB MetLife's ability to improve its operating efficiency would be important for incremental profitability.

Moderate scale of operations – PNB MetLife's operations remain moderate with a market share of 3.1% in FY2024 on the basis of individual APE and 0.9% on an overall NBP basis (2.9% and 1.0%, respectively, in H1 FY2025). The company's distribution is largely driven by PNB, contributing 52-53% to the individual new business premium (NBP) over FY2021 to FY2024. ICRA believes that PNB MetLife will require deeper penetration and widening of its distribution network, product development and continuous investment in technology and marketing to keep its business growth above the industry level and improve its market position.

The regulatory landscape for the life insurance sector has been evolving and is expected to have a bearing on the overall growth and profitability of the sector. The impact of the recent regulatory changes, leading to an increase in the surrender values of life insurance policies, on the commission structure, growth, persistency ratios and profitability will remain monitorable.

Persistency levels improving with scope for further improvement – The company's persistency ratio improved over the last few years with a 13th month persistency of 81.7% in FY2024 (76.1% in FY2021). While the persistency levels are improving, there is scope for further improvement especially in the later cohorts (61st month persistency stood at 46.7% in FY2024). The consistent improvement in PNB MetLife's persistency across cohorts would remain crucial for liquidity and incremental profitability in the individual business.

Liquidity position: Strong

The company's net premium (excluding ULIP) stood at Rs. 7,292 crore in FY2024 in relation to the maximum net claims and benefits (excluding ULIP) paid of Rs. 2,669 crore in the last few years. The operating cash flow remained positive, reflecting PNB MetLife's ability to meet expenses and claims through premium inflows. Additionally, investments in Central and state government securities stood at Rs. 23,548 crore, accounting for 59.7% of the total investments (excluding ULIP) as on September 30, 2024, further supporting the liquidity to meet the claims of policyholders. The shareholders' investment of Rs. 2,190 crore also remains strong in relation to the sub-debt outstanding of Rs. 400 crore as on September 30, 2024.

Rating sensitivities

Positive factors – Substantial and sustained improvement in the company's market position and profitability, leading to an improvement in its financial risk profile.

Negative factors – Deterioration in the credit profile of the MetLife Group or a decline in the strategic importance of PNB Metife to the MetLife Group or in the expectation of support from the MetLife Group could impact the rating. Additionally, a decline in the company's solvency ratio to less than 1.70 times on a sustained basis would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Life Insurance Rating Approach – Implicit Parent or Group Support
Parent/Group support	Parent/Investor: MetLife Group The rating factors in the high likelihood of financial support from the MetLife Group to PNB MetLife, driven by reputational and strategic considerations.
Consolidation/Standalone	Standalone

About the company

PNB MetLife India Insurance Company Limited (PNB MetLife), incorporated in April 2001, was promoted by the MetLife Group while other domestic groups made private equity investments. The company obtained a certificate of registration from Insurance Regulatory and Development Authority of India (IRDAI) to undertake life insurance business on August 6, 2001.

PNB MetLife entered into a distribution agreement with PNB in 2011 and entered into a joint venture with the bank in 2013. This led to a change in its name being changed to PNB MetLife India Insurance Company Limited. Until 2015, MetLife held a 26% stake in the company (maximum foreign direct investment (FDI) limit allowed). Subsequently, the FDI limit for the insurance sector was raised to 49% in 2015 and 74% in 2021. As on September 30, 2024, MIHL held a 46.87% stake in PNB MetLife while PNB held 30.00% and other investors held the balance. On November 11, 2024, MIHL increased its stake in the company by acquiring 2.04% from existing shareholder (Oman India Joint Investment Fund II), thereby increasing MIHL's stake to 48.91%.

Key financial indicators (audited)

PNB MetLife India Insurance Company Limited	FY2023	FY2024	H1 FY2025
Gross direct premium income	8,785	9,732	4,670
PAT	112	276	107
Net worth	1,458	1,736	1,836
Total investments^	31,383	36,920	39,462
13th month persistency ratio	80.0%	81.7%	82.6%
61st month persistency ratio	45.3%	46.7%	48.3%
Solvency ratio (times)	1.86	1.71	1.71

Source: Company, ICRA Research; Amount in Rs. crore; All calculations are as per ICRA Research; ^ Excluding linked investments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Dec 04, 2024	Date	Rating	Date	Rating	Date	Rating
Subordinated debt programme	Long term	400.00	[ICRA]AA+ (Stable)	08-Dec-2023	[ICRA]AA+ (Stable)	13-Dec-2022	[ICRA]AA+ (Stable)	17-Dec-2021	[ICRA]AA+ (Stable)

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE207O08019	Subordinated debt	Jan-27-2022	8.12%	Jan-27-2032*	400.00	[ICRA]AA+ (Stable)

Source: PNB MetLife

** 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*

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 level stipulated by the regulator[6]
- 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
NA	NA	NA

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

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About ICRA Limited:

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