

August 31, 2020

TATA AIA Life Insurance Company Limited: Issuer rating assigned; Claims paying ability rating withdrawn

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]AAA(Stable); Assigned
Claims paying ability rating	-	iAAA; Withdrawn
Total	-	

Rationale

ICRA's Issuer Ratings (IRs) for life insurance companies is an opinion on the ability to pay claims, and policy-holder obligations in a timely manner. The Issuer rating of [ICRA]AAA is assigned to TATA AIA Life Insurance Company Ltd. (TATA AIA). The ratings is driven by strength of the promoters (i.e. Tata Sons Limited (rated [ICRA]AAA with a Stable outlook) and AIA International Limited (rated Aa2 with a Stable outlook by Moody's) and expectation of support as and when required. The existence of a shared brand name strengthens ICRA's assumption that TATA AIA is likely to receive timely and adequate support from both the promoters. TATA AIA's other parent, AIA, extends its strong investment, operational and risk management expertise for building robust systems and policies. The ratings also factor in the company's focus on the retail business, diversified product mix, adequate re-insurance treaties to limit single large risk, its comfortable capitalisation, its growing scale of business and healthy value of new business (VNB) margin and low risk in investment book. TATA AIA's strategic importance to both TATA and AIA are reflected in the presence of their respective management on the company's board.

ICRA has also noted highly competitive nature of the life insurance industry, TATA AIA's moderate yet improving market position, moderate profit after tax on account of higher operating and commission expenses during high growth phase. Tata AIA's ability to improve its cost efficiency while maintaining growth and improving profitability, will remain key monitorable.

ICRA also notes the impact of the Covid-19 pandemic on the business growth during the lockdown period. In addition, the company is likely to experience higher death claims due to the pandemic.

ICRA has withdrawn the claims paying ability rating of TATA AIA. 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 Hence, the rating on TATA AIA Insurance Company Limited's claims paying ability has been withdrawn as per ICRA's rating withdrawal policy.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 promoter profile and brand image - Tata Sons Limited and AIA International Limited hold 51% and 49%, respectively, of equity share capital of Tata AIA. The majority shareholder, Tata Sons, is the principal investment company of Tata Group with diverse business interests, a strong liquidity profile, and financial flexibility derived from the market value of its investments. The 150-year old business conglomerate is also one of the biggest brands in the country. With a track record of almost 100 years, AIA International is one of the largest life insurers in the world with a presence in 18 markets across the Asia Pacific region. ICRA takes comfort from the degree of involvement of the promoters in the

company's operations, the shared brand image and their ability to infuse capital into the company's life insurance business, which is typically capital intensive and has a long gestation period.

Retail-oriented player with focus on protection business - With a market share of around 9.3% in the private sector life insurance space, based on the Retail weighted new premium in Q1 FY2021, Tata AIA is one of the top 5 private life insurers in the country. Retail business formed 98.7% (99.2% in FY2019) of the total annual premium equivalent (APE) in FY2020 for Tata AIA. The company has seen significant growth in protection business in last 4 years, it contributed 28% to retail weighted new premium in FY2020 (18% in FY2019). The persistency ratios for the company has seen an improvement across tenors over the last few years. The company had an improvement in 13th month persistency in Q1 FY2021 to 85.6% from 84.3% in Q1 FY2020. For Q1 FY2021, 61st month persistency was at 60.6% slightly on lower side compared to 61.2% in Q1 FY2020, but it was relatively better than its peers.

Comfortable capitalisation and solvency— The Company's solvency ratio stood at 2.14 as on June 30, 2020, well above the regulatory minimum of 1.50. This leaves adequate capital to support the Company's high growth plans in the near term. It is also backed by strong promoters who have the liquidity and financial capability to fund the insurer, if the need arises. Company intends to maintain solvency ratio at more than 1.75 times at all times.

Diversified business & channel mix with healthy VNB margin – TATA AIA has a well-diversified and balanced premium profile for FY2020 with protection contributing 28% of retail weighted new premium, non-participating savings contributing 33%, ULIPs contributing 21%, and the balance 18% being contributed by the participating savings segment. The company's product mix is also reflected in its healthy VNB margins. The company has also been able to steadily grow its market share over the past four years, which is driven by a strong growth momentum in new business,. TATA AIA's tie up with banks like IndusInd Bank, HDFC Bank, Central Bank of India, Citibank and DBS Bank have allowed it to diversify its channel mix which is supported by a strong agency and direct workforce. The company gives a lot of impetus to their training and specialisation.

Credit challenges

Moderate Profit After Tax on account of relatively high operating expenses and commission expenses – Owing to the current high business trajectory, a multi-distribution business model without a banking promoter, the company's operating expenses¹ are comparatively high at 30% of the net premium in FY2020. The company also drives a balanced portfolio mix with focus on protection and non-participating savings policies and accordingly, the commission expense is higher compared to the other top players (as commission for protection product is front loaded). The company reported a net profit of Rs. 44 crore in FY2020, with a ROE of 2.1% in FY2020. As the top line growth continues, the cost structure is expected to get leaner, improving the operating efficiency and thereby, improving profitability.

High competitive intensity in the life insurance industry – The company faces stiff competition from both public as well as private players. There are 24 players in the Indian life insurance industry. LIC contributed ~45% of the retail weighted new premium, top 3 players contributed ~48% of private players' retail weighted new premium the remaining players contribute 52% in Q1 FY2021. Given the strong resource profile of these top 3 players, they hold significant competitive advantage in terms of strong distribution network (due to presence of a captive bank or bank in the parent group), which

¹ Includes operating expenses related to insurance premium, service tax on premium, provision for doubtful assets, bad debts written off, provision for tax, provision for diminution in the value of investments, expenses other than those directly related to the insurance business and corporate social responsibility expenses.

reflects in their lower commission and operating expense ratios. TATA AIA's ability to improve its operating efficiency as it scales up remains a key monitorable.

High amount of guaranteed non-participating business, however it is reduced from last year – Non-participating guaranteed products which is one of the focused segments of Tata AIA constituted 33% of the retail weighted new premium as of March 31, 2020. These products are more profitable in terms of higher VNB margins. However, realisation of VNB margins hinges on effectively managing interest rate risk on the future premiums. Even though company deploys partly paid bonds and forward rate agreements to hedge this risk, apart from duration & cash flow matching, efficacy of the company's investment strategy to limit balance sheet risk remains to be seen and will be monitored closely.

Liquidity position: Strong

The company reported liquid assets of Rs. 21,047 crore (calculated as liquid investments, adjusted for haircuts and adjustments to stressed investments, cash & bank balance and net dues from insurance entities) as on March 31, 2020. As against these net benefits claims paid during FY2020 were Rs. 2,367 crore (11% of liquid assets as on March 31, 2020). The company did not have any debt outstanding as of June 2020. ICRA does not foresee any liquidity risk in the near term.

Rating sensitivities

Negative triggers – The outlook or the rating could be revised in case of a revision in the rating of the parent company (TATA Sons), a significant change in the company's majority shareholding or in its linkages with the parent. 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	ICRA's Credit Rating Methodology for Life Insurance companies Impact of Parent or Group Support on an Issuer's Credit Rating Policy on Withdrawal and Suspension of Credit Ratings
Parent/Group Support	Parent/Investor: TATA Sons & AIA International ICRA factors in the strong promoter of Tata AIA i.e. Tata Sons and AIA. The rating considers the financial and management support received by TATA AIA from its promoters in the form of senior management deputation and board representation, and equity infusion in past apart from brand linkages.
Consolidation	For arriving at the rating, ICRA has considered the standalone financials

About the company:

Tata AIA Life Insurance Company Limited is a joint venture between Tata Sons Limited (51% equity shareholding) and AIA International Limited (49%). Tata AIA provides life insurance products and services in India. The product offerings include protection, wealth, savings and child solutions for individuals and group solutions like credit life and group term for corporates. The company was incorporated in 2000 and is based in Mumbai. Tata AIA's gross premium written was Rs. 8,309 crore in FY2020 (Rs. 6,070 crore in FY2019). For the same period, the company's 13th month persistency ratio was 89.1% and the individual death claims settlement ratio was 99.06%. The company had 223 branches spread across the country as on March 31, 2020. The company follows a multi-channel distribution approach, which consists of proprietary

channels like agency and direct sales force, and partnership distribution channels which include corporate agents and banks.

Key financial indicators (Audited)

	FY2019	FY2020	Q1 FY21
Gross Premium	6,070	8,309	1,835
Income from Investment and Fees	2,235	304	2,093
Total Expense incl. commissions	1,852	2,442	544
Benefits Paid	1,963	2,367	366
Net change in valuation of liability in respect of life policies / Increase in Reserves	4,252	3,349	3,004
PAT	33	44	-62
Total Net Worth	2,070	2,114	2,051
Total Policy holders + Shareholders Investments	17,883	21,948	23,615
Assets held to cover linked liabilities	10,547	9,502	11,090
Expense Ratio (Opex / NPW)	31.09%	30.13%	30.84%
Commissions Ratio (commissions / NPW)	9.93%	10.35%	10.22%
Return on equity	1.58%	2.09%	nm
13 th month persistency ratio	83.27%	89.10%	85.64%
61 st month persistency ratio	60.96%	58.80%	60.58%
Regulatory Solvency ratio	2.68	2.35	2.14

nm: not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

SN	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding	Date & Rating	FY2020	FY2019	FY2018
			(Rs. crore)	(Rs. crore)	31-Aug-20	22-Oct-19	30-Jul-18	-
1	Issuer Rating	Long Term	-	-	[ICRA]AAA (Stable); Assigned	-	-	-
2	Claims paying ability rating	Long Term	-	-	iAAA; Withdrawn	iAAA	iAAA	-

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.

Annexure-1: Instrument Details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	[ICRA]AAA(stable)
NA	Claims paying ability	-	-	-	-	iAAA; Withdrawn

Source: TATA AIA Life Insurance Company Ltd

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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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