

October 13, 2021

ICICI Prudential Life Insurance Company Limited: Ratings 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-1

Rationale

The rating takes into account the strong support from ICICI Prudential Life Insurance Company Limited's (ICICI Pru) sponsors, ICICI Bank Limited (rated [ICRA]AAA(Stable)) and Prudential Corporation Holdings Limited. The existence of a shared brand name strengthens ICRA's assumption that ICICI Pru is likely to receive timely and adequate support from both promoters.

Further, ICICI Pru's comfortable solvency levels (194% as on June 30, 2021) act as a buffer to absorb the vulnerability related to claims and capital market volatility. ICRA also takes comfort from ICICI Pru's diversified product offering and distribution network and expects it to maintain a healthy market position enabling operating efficiencies and healthy value of new business (VNB) margins. ICRA also notes ICICI Pru's strong investment book with very low credit risk and its ability to generate adequate income and gains.

ICRA notes that ICICI Pru is likely to experience higher claims and business growth might get impacted in the near term due to the Covid-19 pandemic. ICICI Pru's profitability was adversely impacted by Covid claims which were in-line with the industry experience, though it continued to report healthy VNB margins in FY2021 and Q1 FY2022. The Company has created a Covid reserve of Rs. 498 crore as on June 30, 2021 incremental to the net incurred claims of Rs. 500 crore in Q1 FY2022 thereby covering around five times the net Covid claims incurred in FY2021 (Rs. 198 crore). ICRA notes that the overall impact of Covid claims on the solvency profile remains manageable. ICRA also notes the slowdown in the savings business in the past was due to the dominance of the large-ticket unit-linked insurance plan (ULIP) business in its product mix, which is more susceptible to market volatility. Since then the company has increased its focus on diversifying into the mass affluent and mass customer segments thereby improving the non-linked savings and protection mix. Maintaining growth resilience in a capital market downcycle and scaling up the protection portfolio, while maintaining the death claims settlement ratio and overall profitability are key rating monitorable.

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 regulator¹
- » 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

¹ 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 profiles – ICICI Bank and Prudential held 51.34% and 22.10%, respectively, in ICICI Pru as on June 30, 2021. The majority shareholder, ICICI Bank, is one of the largest private sector banks in India with a network of 5,266 branches across the country. It is also the exclusive bancassurance partner of ICICI Pru, which provides the company with a wide reach. ICICI Bank also has a strong brand image and capital market position, which are leveraged by ICICI Pru in terms of a shared brand name. The foreign partner, Prudential Plc, is an Asia-led portfolio of businesses focused on structural growth markets.

Diversified product offering – With diversified product offering across the savings and protections businesses, ICICI maintains a healthy position with a market share of 7.2% in FY2021 (9.0% in FY2020) on retail weighted received premium (RWRP) basis in the industry, and 12.1% in FY2021 (15.8% in FY2020) on RWRP basis in the private sector. The higher share of ULIP (APE) compared to the private sector may have led to reduction in ICICI Pru's market share in FY2021. Since FY2019, the company has increased its focus on diversifying into the mass affluent and mass customer segments thereby improving the non-linked savings mix. ICICI Pru's ULIP contribution declined to 48% of its APE in FY2021 compared to 65% in FY2020 and 80% in FY2019. Further, the share of non-linked savings business in overall APE grew to 31% in FY2021 from 17% in FY2020.

ICICI Pru is also increasing its focus on protection products that contributed 16% to ICICI Pru's APE in FY2021 compared to 15% in FY2020 and 9% in FY2019, though the growth was impacted in FY2021 due to lockdown restrictions. While ICRA notes the capital-intensive nature of the protection products, the overall profitability is higher in the product life cycle and will help the value of new business (VNB) margin² going forward.

Retail formed more than 83% of the company's total gross premium in FY2021. With diversified product mix in place and an enhanced distribution network with significant addition of new partners during FY2021 and Q1 FY2022, the company delivered 48% Y-o-Y growth in APE in Q1 FY2022.

Diversified distribution network with majority share of bancassurance channel – ICICI Pru has diversified distribution network dominated by bancassurance channel, which accounted for 42% of the total APE in FY2021 (50% in FY2020). The company capitalises the extensive reach of ICICI Bank, which has an exclusive tie-up with ICICI Pru for the sale of life insurance products. Within the bancassurance channel, it announced multiple partnerships during FY2021 and has a total of 23 bank partnerships as at June 2021. With these partnerships, it has broadened reach to 162 million bank customers with a branch footprint of about 12,000 branches. Linked business was majorly sourced (65% of linked business APE) through the bancassurance channel in FY2021. Distribution through agency channel and direct channel (including group business) contributed to 24% and 25% respectively, to the total APE in FY2021 (each contributing 21% to total APE in FY2020) with increasing share from the non-linked saving products.

Comfortable capitalisation – ICICI Pru's solvency stood at 194% as on June 30, 2021 (217% as on March 31, 2021) compared to the minimum regulatory requirement of 150%. ICRA does not expect incremental capital requirement, as the solvency ratio is comfortable to support growth in the medium term. ICRA notes the high dividend payout ratio compared to the company's large peers. Also, 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 25.1% in FY2021 (21.7% in FY2020) and 29.4% in Q1 FY2022

² VNB/APE

(24.4% in Q1 FY2021). The improvement was led by the change in the product mix (increasing mix of protection and non-linked businesses) and improving operating efficiencies. Also, the sources of VNB are diversified with the contribution from linked savings at 22%, non-linked savings products at 24%, and protection at 53% which includes both retail and group protection. Hence, a decline in accounting profits is not seen as a matter of significant concern while a growth in the VNB would translate into profits in future. The company has provided guidance regarding its aspiration to double the FY2019 VNB by FY2023, thereby requiring it to increase at compounded annual growth rate (CAGR) of 28% during FY2022 - FY2023.

The net profitability remained lower in FY2021 with (return on equity (RoE) of 10.5% compared to 14.8% in FY2020 due to higher tax charge and higher net benefits/reserving during the period. Net benefits grew 17% in FY2021 with higher claims by death and maturity of linked policies and saving products. ICICI Pru incurred net Covid claims of Rs. 198 crore in FY2021 while it created reserves of Rs. 332 crore for future Covid claims. 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. 500 crore and created additional reserves of Rs. 166 crore for future Covid claims, thereby increasing the total reserves to Rs. 498 crore as on June 30, 2021 to cover the future Covid related claims. Consequently, it incurred net loss of Rs. 185 crore in Q1 FY2022.

ICICI Pru's net profitability is also supported by the investment income earned from its assets under management (AUM). AUM grew 40% to Rs. 214,218 crore as on March 31, 2021 and Rs. 223,171 crore as on June 30, 2021 from Rs. 152,968 crore as on March 31, 2020 due to higher valuation of equity investments and growth in the non-linked business. Debt securities form 53% of the total investments as on June 30, 2021, of which 97% comprised AAA / sovereign securities. ICRA takes comfort from the strong investment book with zero non-performing assets, ICICI Pru's ability to earn adequate yields and gains from investments and hedging practice for its guaranteed saving business.

Credit challenges

Ability to grow and maintain profitability in protection business – The increasing share of the protection business in the overall APE is expected to create the significant value accretion for ICICI Pru as it already has a lean cost structure. The VNB margins on the protection products, are typically the highest amongst the life insurance product suite. The business has shown strong growth in the last few years though it is expected to moderate in the medium term. The growth in the protection business was impacted in FY2021 and Q1 FY2022, due to challenges in medical check-up and stricter underwriting amid pandemic. The protection business, which formed 16% of the APE in FY2021 (22% in Q1FY2022), has low adoption in the country compared to savings. However, improving customer awareness is expected to expand the market. Hence, the ability to scale up the portfolio to a sizeable proportion in a small market, while maintaining the product pricing and death claims settlement ratio, is a key monitorable.

ULIPs susceptible to capital market movements – ICICI Pru's product mix was dominated by ULIPs in the past (80% share in APE in FY2020), which made the company's operations more vulnerable to the vagaries of the capital market. However, ICRA notes that the company has taken steps to diversify into the mass affluent and mass customer segments thereby improving the non-linked savings mix, which has relatively stable investment patterns even in volatile market conditions. With this the linked mix has moderated to 48% of APE and 22% of VNB in FY2021. This coupled with the increasing focus on the protection is expected to reduce the impact of volatile market conditions, going forward. The linked segment has a lower capital requirement, and its low-margin nature necessitates an improvement in the persistency levels and cost control. Maintaining the growth resilience in a capital market downcycle would be a key point to monitor.

Liquidity position: Strong

The company had a liquidity buffer of Rs. 194,881 crore (calculated as liquid investments, adjusted for haircuts and stressed investments and cash & bank balance) as of June 30, 2021. In FY2021, actual benefits/claims paid stood at Rs. 22,641 crore, amounting to 15.7% of the policy and linked liabilities as on March 31, 2020 (policy and linked liabilities were Rs. 201,827 crore as of March 2021). The nearest debt repayment is the Rs. 82-crore coupon payment for the subordinated debt programme, which is due on November 06, 2021. The principal of the subordinated debt programme of Rs. 1,200 crore is due on November

06, 2030. However, ICICI Pru has a call option, which is exercisable five years from the date of allotment on November 06, 2025 and at the end of every year thereafter before the redemption date. ICRA does not foresee any liquidity risk in the near term.

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 Bank, a change in the parentage or a decline in the strategic importance of ICICI Pru to its promoter companies or a decline in the expectation of support from the promoters. 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 - 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 Bank'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 Bank and Prudential held 51.34% and 22.10%, respectively, in ICICI Pru as on June 30, 2021, while the rest is publicly held. Incorporated in July 2000, the company provides life insurance, pensions and health insurance to individuals and groups. The products are offered under the participating, non-participating, non-participating 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 ~517 branches and over 1.87 lakh agents as on March 31, 2021.

Key financial indicators (audited)

ICICI Pru	FY2019	FY2020	FY2021	Q1 FY2022
Gross Direct Premium	30,930	33,431	35,733	6,870
Income from Investments and Fees	10,948	(11,773)	48,303	9,636
Total Operating expenses	4,199	4,737	4,317	1,058
PAT	1,139	1,067	956	(185)
Total Net Worth	7,042	7,213	9,109	8,477
Total Policyholders' + Shareholders' Investments (excluding assets held to cover linked liabilities)	48,057	54,167	73,653	76,080
Assets Held to Cover Linked Liabilities	110,946	97,085	138,549	145,085
Operating Expense Ratio (opex / NPW)	13.7%	14.4%	12.1%	15.4%
Return on Equity	16.2%	14.8%	10.5%	-8.7%
13 th Month Persistency Ratio	86.2%	86.8%	87.1%	87.7%
61 st Month Persistency Ratio	58.1%	58.7%	59.8%	59.9%
Regulatory Solvency Ratio	215%	194%	217%	194%

Source: Company, ICRA Research; All ratios as per ICRA calculations; 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
					Oct 13, 2021	Oct 14, 2020	NA	NA
1	Subordinated Debt programme	Long Term	1,200.00	1,200.00	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
ICICI Prudential Pension Funds Management Company Limited	100%	Full consolidation

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