March 27, 2017

ICICI Lombard General Insurance Company Limited

Instrument/Facility	Amount in INR Crores	Rating Action
Claims paying ability	-	iAAA ; Reaffirmed
Subordinated Debt Programme	485.00	[ICRA]AAA (stable); Reaffirmed

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the highest claims paying ability rating of iAAA (pronounced as I triple A) on ICICI Lombard General Insurance Company Limited (IL). The rating indicates a fundamentally strong position and that the prospect of meeting policyholder obligations is best. ICRA has also reaffirmed the rating of [ICRA]AAA (pronounced as ICRA Triple A) with stable outlook to the Rs. 485 crore subordinated debt programme of ICICI Lombard General Insurance Company Limited (IL).

Rationale

The rating takes into account the shareholding pattern of IL with the presence of two strong parents (64:35[1] joint venture between ICICI Bank Limited[2] (ICICI Bank, [ICRA]AAA with a stable outlook) and Fairfax Financial Holdings Limited[3] (FFHL, Baa3 by Moody's). The presence of a shared brand name strengthens ICRA's expectation that IL will receive capital support from its parent companies as and when a need arises. While subordinated debt instruments cannot be serviced if the regulatory solvency requirements are breached, ICRA takes note of the company's current solvency indicators and its policy as well as past track record of maintaining adequate cushion in solvency levels to take care of any exigencies. ICRA further expects that the standing of ICICI Bank in the Indian capital markets to place a strong onus on the parent companies of IL to ensure that it meets all required regulatory requirements (on a continual basis) for timely and adequately service debt obligations with respect to the rated instrument. The rating takes into account IL's market standing as India's largest private sector general insurer, strong financial performance, prudent risk management practices and adequate reserving against claims to be incurred. While few segments in the industry have seen pricing pressure and crop insurance market has grown recently but significantly, IL's ability to contain loss ratios and maintaining profitability amidst the changing industry dynamics would remain monitorable.

Key Rating Drivers

Credit Strengths

- Strong financial strength of the parent companies, i.e. ICICI Bank (rated [ICRA]AAA and Fairfax Financial Holdings Limited (senior debt rated Baa3/ stable by Moody's) coupled with strong, experienced management team and board representation by senior executives of the parent companies.
- Strong capital and liquidity position of the company impart significant financial strength to IL and its claims paying ability
- Shared brand name with ICICI Bank strengthens the franchise value
- Balanced portfolio across retail and corporate segments, along with leadership position among the private sector insurance companies

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[1] As on December 31, 2016
[2] Rated at [ICRA]AAA with a stable outlook
[3] Rated Baa3 by Moody's

Credit Challenges

- Losses registered at the underwriting level for the last few years; ability to report underwriting profits consistently remains to be seen.
- Ability to maintain profitability while growing its scale of operations, amidst pricing pressure in segments like group health and fire
- Ability of the company to underwrite crop insurance business profitably remains to be seen as the market has opened up only recently for private sector general insurance companies.

Description of key rating drivers highlighted above:

IL with a market share of 8.8% during 9MFY2017 maintained its position as the leading private general insurer of the country. The company saw a healthy growth of 21% with total gross direct premium written (GDPW) of Rs 8090.7 crore in FY2016 and 34% (Y-o-Y) with total GDPW of Rs 8059.3 crore during 9MFY2017. The motor insurance segment (including motor-own damage and motor-third party) continues to be the largest (accounting for 42% of total GDPW in 9MFY2017) followed by crop insurance (accounting for 20% of total GDPW) where the market has expanded under the Pradhan Mantri Fasal Bima Yojana (PMFBY), Health insurance (accounting for 16% of total GDPW) and Fire insurance (accounting for 7% of total GDPW).

During FY2016, the company registered a double digit growth in all its major segments except health insurance where the company maintained its selective approach towards underwriting group health business. During 9MFY2017, crop insurance was the primary growth driver, followed by the health segment at 31 %(Y-o-Y). The premiums mobilized are geographically diversified, with top 5 states accounting for 62% of the total GDPW in 9MFY2017 (63% in FY2016). Crop insurance is expected to boost the growth for the industry, but remains a relatively new segment for the private general insurers with limited history of claims experience. Ability of the company to underwrite the segment profitably remains to be seen.

The combined ratio of the company inched up during FY2016 to 106.9% from 104.2% in FY2015 and was 106.2% in 9MFY2017. The increase from FY2015 was due to higher claims ratio. The claims incurred for the company increased in the motor and fire portfolio on account of the Chennai flood of November-December 2015 along with higher claims in the crop insurance segment where few states reported higher claims. Consequently, the claims ratio inched up to 82.1% in 9MFY2017 from 81.5% in FY2016 (81.3% in FY2015). Although, the company has sizeable wholesale exposures (30% in FY2016) where the risk cover is large, the company has adequate reinsurance and catastrophe cover to contain the losses. The retention ratio was 61% in 9MFY2017 (66% in FY2016).

IL's distribution network is diversified with a mix of agents, bancassurance, brokers and alternate channels such as online, direct marketing and tele-calling. The direct channel (44%[4] for 9MFY2017) and broker network (31%[4] for 9MFY2017) form the largest channels of distribution. The company has also invested in technology to provide impetus to virtual offices – which are known for their low costs and high TAT (turnaround times).

The company's investment portfolio continues to satisfactorily comply with all the regulatory requirements across asset classes and instruments. IL's equity portfolio stood at around Rs.1854 crore (13% of the total investment book) as on December 31, 2016. ICRA derives comfort from IL's sizeable investment book (65% of total assets as on December 31, 2016) and its solvency ratios that remain at levels higher than mandated by regulations of 1.5 times. The company reported a solvency ratio of 2.01 times as on December 31, 2016 (vis-à-vis 1.82 times in March 31, 2016) supported by the issuance of

[4] In terms of gross premiums collected

subordinate debt during FY2017. Further, the company has been maintaining adequate reserves against the claims to be paid. It's claim settlement ratio within the 30-day period for the motor-own damage segment (92% for 9MFY2017) is one of the best in the general insurance industry.

Analytical approach:
For arriving at the ratings, ICRA has taken a standalone view of the company and implicit support of the majority shareholder, ICICI Limited (rated [ICRA]AAA(stable)).

Link to applicable Criteria:
General Insurance Companies

About the company
IL is a joint venture between ICICI Bank (ICICI) and Fairfax Financial Holdings Limited (FFHL), with the former currently holding 63.69% of the paid up capital as on December 31, 2016. For FY2016, ICICI Bank reported a net profit of Rs. 9,726.3 crore on total assets of Rs. 7.21 lakh crore and had a regulatory capital adequacy of 16.64% (Tier I of13.09% and CET I of 13.00%) as on March 31, 2016. FFHL is a Toronto, Canada based financial services holding company, with operating companies spread across Canada, US, Europe and the Far East.

Recent Results
During 9MFY2017, IL reported a Profit before tax (PBT) of Rs 661.5 crore (Rs 541.2 crore in 9MFY2016) and Profit after tax (PAT) of Rs. 522.2 crore (Rs. 388.3 crore in 9MFY2016) on a GDPW of Rs. 8059.3 crore (Rs 6021.9 crore in 9MFY2016). The reported networth stood at Rs. 3957.3[5] crore as on December 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

[5] Includes Fair Value Change of Account of Rs. 386.6 crore

Rating History for last three years

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	March 2017	FY2017	FY2016	FY2015
					April 2016	March 2016	January 2015
1	Claims Paying Ability	Long Term	N.A.	iAAA	iAAA	iAAA	iAAA
2	Subordinated Debt	Long Term	485.00	[ICRA]AAA (stable)	[ICRA]AAA (stable); Assigned	N.A.	N.A.

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

Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Current Rating and Outlook
Subordinated Debt Programme	July 28, 2016	8.25%	July 28, 2026	485.00	[ICRA]AAA (stable)

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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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