April 21, 2017

ICICI Prudential Life Insurance Company Limited

Summary of Rated Instruments

Instrument/Facility	Amount in INR crore	Rating Action
Claims Paying Ability	-	iAAA Reaffirmed

Rating Action

ICRA has reaffirmed the claims paying ability rating of iAAA for ICICI Prudential Life Insurance Company Limited (ICICI Prudential). The claims paying ability rating indicates a fundamentally strong position and that the prospect of meeting policyholder obligations is best.

Rationale

The rating takes into account the strong parent support from ICICI Bank Limited (ICICI Bank; rated at [ICRA]AAA with a stable outlook) & Prudential Corporation Holdings Limited (Prudential; Prudential PLC rated at A2[1] with a stable outlook by Moody's), the company's position as the country's largest private sector life insurer on RWRP[2] basis, its strong bancassurance channel, healthy profitability metrics and comfortable solvency levels. ICICI Prudential's ability to comply with regulatory changes while maintaining growth and profitability targets will remain a key determinant.

Key rating drivers

Credit Strengths

- Strong support from ICICI Bank (rated [ICRA] AAA with stable outlook) in the form of brand name, local knowledge and management depth. Foreign joint-venture partner Prudential (Prudential PLC rated A2/Stable/P-1 by Moody's) provides actuarial and underwriting support.
- Strong market position with leading market share amongst private sector insurer in terms of retail weighted received premiums
- ICICI bank support in the form of exclusive partnership with the company to sell policies strengthens the distribution network and reach of the company besides a strong agency channel
- Healthy profitability indicators with the company reporting consistent profits for the past few years. In addition, cost efficiency of the firm is one of the best compared to peers.
- Capitalization level is strong with a solvency ratio of 2.9 times (compared to regulatory minimum of 1.5 times)

Credit Challenges

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- Relatively higher proportion of linked business (ULIPs) exposes the business to the vagaries of equity market
- Ability to grow its protection business which historically has a low adoption rate in the country
- Ability to maintain growth and profitability amidst regulatory changes

Credit Sensitivity

- Any change in the relationship with its largest sourcing partner, ICICI bank.

[1] As at June 2016

[2] Retail weighted received premium

Detailed description of key rating drivers
ICICI Prudential derives significant synergies from its major shareholder ICICI Bank in the form of strong business flows through the bancassurance channel which leverages the bank's extensive distribution reach. Its foreign partner, Prudential, brings in strong operational and risk management expertise, thereby assisting in building/maintaining robust systems & processes. In addition to the strong bancassurance channel (contributed 58% of APE for 9MFY2017) with ICICI bank being the largest bancassurance partner, the company also has a strong agency network (contributing 23% APE for 9MFY2017). ICICI Prudential has consolidated its agency and branch network and strengthened its IT infrastructure to derive cost benefit.

During 9MFY2017, the company registered a healthy growth of 15.6% YoY in gross premium collections on the back of strong new business premium growth. In terms of new business APE[3], the company witnessed a rise of 27.6% to Rs 4,458 crore in 9MFY2017 from Rs. 3,494 crore in 9MFY2016. In terms of the product mix, ICICI Prudential has a relatively higher share of linked premiums which contributed almost 74% of the gross premiums in 9MFY2016 (compared to 75% in FY2016). Almost 88% of the new business premiums have come from individual business in 9MFY2017 (compared to 79% in FY2016). Going forward, the company intends to increase the share of protection business which currently contributes a small share of 3.9% of APEin 9MFY2017. The protection business earns a higher margin for the insurer and is gaining traction over the recent past although the market remains small currently compared to the more popular savings product. The company's operations continue to reflect moderate geographic concentration risk with the top 5 states contributing 55%% to the total individual new business premium during 9MFY2017 (vis-a-vis 56%% during FY2016).

The profitability indictors of the company have been supported by moderating operating expense base and an improvement in persistency ratio. The company leveraged technology to keep the expense ratio[4] at one of the lowest in the industry at 15.9% in 9MFY2017 (14.5% in FY2016). The company's persistency ratio has also seen been improving over the past 3 years with 13th month persistency at 83.5 % in 9MFY2017 compared to 80.9% in 9MFY2016 (61st persistency also improved to 64.0% in 9MFY2017 compared to 28.2% in 9MFY2016. Consequently, the company reported a net profit of Rs 1,273.4 crore in 9MFY2017 (return on networth of 28.6%) compared to Rs 1650.1 crore (return on networth of 31.0%).

The company remains adequately capitalized, with a regulatory solvency ratio of 2.94 times as on December 31, 2016 (as compared to a regulatory minimum of 1.50 times). The company has a higher share of ULIPs in its portfolio where the risk is borne by the policyholder and hence the capital consumption is less. Nevertheless, as the company is expected to increase the share of protection business, the quantum of capital required would increase. It also has strong cushion in the form of parent support for infusing capital to meet any exigencies to support growth and solvency margins.

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

Links to applicable criteria:
Rating Methodology for Domestic Life Insurance Companies

[3] Annualized Premium Equivalent is defined as a sum of annualized first year premium and 10% of single premium during a given period
[4] Ratio of expense including commission to totall weighted risk premiums

About the Company
ICICI Prudential Life Insurance Company Limited (ICICI Prudential) is a joint venture between ICICI Bank - one of India's foremost financial services companies and Prudential Corporation Holdings Limited - a leading international financial services group headquartered in the United Kingdom. The company raised the initial public offer in September 2016 with ICICI bank reducing its stake to around 54.89% and Prudential holding 25.83% as on December 31, 2016. Incorporated in December 2000, the company has a nation-wide team comprising ~520 branches and over 1.21 lakh agents as on March 31, 2016.

During 9MFY2017, ICICI Prudential reported net profits of Rs. 1274 crore on a net premium of Rs. 14629 crore with a solvency ratio of 2.94 times as on December 31, 2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

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)	April 2017	FY2017	FY2016	FY2015
					March 2016	March 2015	March 2014
1	Claims Paying Ability	N.A	N.A.	iAAA	iAAA	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

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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.
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