

## ICICI Prudential Life Insurance Company Limited

April 25, 2019

### Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Claims paying ability rating	-	iAAA; reaffirmed

### Rationale

The rating takes into account the strong support from ICICI Prudential Life Insurance Company Limited's (ICICI Pru) parents, ICICI Bank Limited (rated [ICRA]AAA(Stable)) and Prudential Corporation Holdings Limited (rated A2 with a Stable outlook by Moody's), its position as one of the largest private sector life insurers in the country based on new business premium, the strong bancassurance channel, robust underwriting performance with increasing focus on the protection business and comfortable solvency levels.

ICRA notes the slowdown in the savings business 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. ICICI Pru's ability to comply with regulatory changes while maintaining the growth and profitability targets will remain a key monitorable. Going forward, the increasing focus on improving the protection mix and diversifying into the mass affluent and mass customer segments is expected to reduce the company's vulnerability to weak market conditions.

### Outlook: Not applicable

### Key rating drivers

#### Credit strengths

**Strong promoter profiles** – ICICI Bank and Prudential held 52.87% and 25.82%, respectively, in ICICI Pru as on December 31, 2018. The majority shareholder, ICICI Bank, is one of the largest private sector banks in India with a network of 4,867 branches across the country. It is also the exclusive bancassurance partner of ICICI Pru, which provides the company with a wide reach as well as cost efficiency. ICICI Bank also has a strong brand image as well as capital market position, which is leveraged by ICICI Pru in terms of a shared brand name. The foreign partner, Prudential, is a leading international financial services group, headquartered in the United Kingdom.

**Leading player in retail segment among private peers with increasing focus on protection products** – ICICI Pru is one of the biggest life insurers in the country with a retail weighted received premium (RWRP)<sup>1</sup> market share of 18.7% in the private sector as on December 31, 2018. However, this reduced from 20.9% in FY2018, predominantly due to a slowdown in the ULIP business (formed 81% of the annual premium equivalent (APE) in 9M FY2019), on account of volatile market conditions, which impacted the growth in the savings business. This was largely due to the deferral of investments in the large-ticket ULIPs by the affluent customer segment, as they are more responsive to market developments compared to lower income groups.

<sup>1</sup> Calculated as the sum of individual non-single premium and 10% of individual single premium

ICRA expects the growth to recover in FY2020 if the market conditions improve. ICRA also notes ICICI Pru's efforts to diversify its customer base in the mass affluent and mass customer segments. Retail formed 95.2% of the company's total APE as of December 31, 2018. The company's RWRP posted a CAGR of 17.5% during FY2015 to FY2018, although it fell by 11% YoY in 9M FY2019. The company's successful tie-up with ICICI Bank helps it maintain a strong foothold in the retail segment. ICICI Pru is also increasing its focus on protection products (100% YoY growth in 9M FY2019). 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) margin<sup>2</sup> going forward.

**Strong bancassurance channel** – 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. In 9M FY2019, the share of bancassurance distribution was 56.5% of the total APE, which predominantly includes contributions from ICICI Bank. Standard Chartered Bank is another significant partner in bancassurance, and ICICI Pru has tie-ups with a few small finance banks as well. The share of bancassurance has increased from 52.1% in 9M FY2018. The company plans to tap this channel further, along with the agency and broker channels, to increase its reach in the mass affluent segment.

**Comfortable capitalisation** – ICICI Pru's solvency stood at 224% as on December 31, 2018 compared to the minimum regulatory requirement of 150%. The solvency ratio is comfortable to support growth at current levels in the medium term. However, ICRA notes the high dividend payout ratio compared to the company's large peers. In case of sustained aggressive growth in the protection business, the capitalisation may be supported by a reduction in dividend payouts or the raising of subordinated debt, along with internal accruals.

**Profitability remains strong, although profits have declined due to growth in protection business, increasing the new business strain, and slow-down in top line growth**– The company has been consistent in posting sustainable profits in the past few years, until 9M FY2019, which was impacted by a slowdown in the top line. Unfavourable market conditions led to a slowdown in the business. ICICI Pru reported an RoE of 17.2% in 9M FY2019, down from 25.4% in 9M FY2018. The profitability is, however, aided by the tight control of operating expenses (operating expense ratio of 14.2%), and strong persistency levels (13-month persistency of 85.4% and 61-month persistency of 56.60%). Being in a high growth phase, the growth in PAT is expected to remain flat in the shorter term due to the strain on underwriting new business, more so for protection products than for savings products. However, VNB margin, which is a better profitability indicator in life insurance business, has remained stable at 17% in 9M FY2019 (16.5% in FY2018).

## Credit challenges

**Ability to grow and maintain profitability in protection business** – The company needs higher growth in its protection portfolio for attaining significant value accretion, as it already has a lean cost structure. The business has shown strong growth in the last few years, which is expected to moderate in the medium term. The protection business, which formed 9% of the APE in 9M FY2019, 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 continues to be dominated by ULIPs. This makes the company's operations more vulnerable to the vagaries of the capital market. Although the business has lower capital requirement, its low-margin nature necessitates improvement in the persistency levels and cost control. In 9M FY2019, ICICI Pru saw a decrease in new business and lower growth in renewal premium in the ULIP segment. However,

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<sup>2</sup> Calculated as value of new business divided by annual premium equivalent

ICRA notes that the company has taken steps to diversify into the mass affluent segment, which has relatively stable investment patterns even in volatile market conditions. The existing customer mix largely comprises the affluent segment, with less granularity. The increasing focus on the protection business and foray into other customer segments is expected to reduce the impact of volatile market conditions, going forward. Maintaining the growth resilience in a capital market downcycle would be a key point to monitor.

**Maintaining profitable growth amid evolving industry challenges and regulations** – The insurance industry in India is highly regulated with frequent large-impact regulations. The regulatory body has proposed a review of the surrender charges of traditional savings products. Although this business formed around 11% of the company’s APE in 9M FY2019, the actual impact on profitability remains to be seen. The proposed increase in the tax rate for life insurance companies, if it comes into effect, is also expected to have a one-time impact on the embedded value and VNB of life insurance players across the industry.

### Liquidity position

The company had a liquidity buffer of Rs. 4,272 crore (calculated as 50% of the sum of total investments, cash and bank balance, income accrued on investments less fair value change account, policy liabilities and net dues to other insurance companies) as of December 31, 2018. It has no outstanding subordinated debt. ICRA does not foresee any liquidity risk in the near term.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Methodology for claims paying ability ratings for Domestic Life Insurance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer’s Credit Rating</a>
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 senior management deputation and 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	For arriving at the rating, ICRA has used the consolidated financials of ICIC Pru. As on March 31, 2018, the company had one subsidiary, which is listed in Annexure-2.

### About the company

ICICI Prudential Life Insurance Company Limited 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. Following the initial public offer in September 2016, ICICI Bank holds a stake of 52.87% while Prudential holds a stake of 25.82% (as on December 31, 2018). The rest is publicly held.

Incorporated in July 2000, the company provides life insurance, pensions and health insurance to individuals and groups. 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 ~505 branches and over 1.71 lakh agents as on March 31, 2019.

## Key financial indicators (audited; consolidated)

	FY2017	FY2018	9M FY2018	9M FY2019
Gross Direct Premium	22,354	27,069	18,340	20,766
Income from Investment and Fees	15,732	12,154	13,421	5,078
Total Operating Expense <sup>i</sup>	3,170	3,559	2,419	2,905
PAT	1,682	1,619	1,279	878
Total Net Worth	6,406	6,882	6,724	6,811
Total Policy Holders + Shareholders Investments <sup>ii</sup>	33,702	41,035	39,046	45,139
Operating Expense Ratio	14.2%	13.3%	13.2%	14.2%
Return on Equity	26.3%	23.5%	25.4%*	17.2%
13 <sup>th</sup> Month Persistency Ratio	85.7%	86.8%	86.6%	85.4%
61 <sup>st</sup> Month Persistency Ratio	56.2%	54.5%	54.5%	56.6%
Regulatory Solvency Ratio	2.81	2.52	2.52	2.24

Amounts in Rs. crore

\* 9M returns are annualised

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years

Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	FY2019	FY2018	FY2017	
				Apr-19	Apr-18	Apr-17	Mar-16	
1 Claims paying ability	Long Term	-	-	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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Claims paying ability	NA	NA	NA	NA	iAAA

Source: ICICI Pru

### 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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### 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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<sup>i</sup> Including net commission

<sup>ii</sup> Does not include asset held to cover linked liabilities