ICICI Lombard General Insurance Company Limited

Instrument/Facility	Amount in INR Crores	Rating Action (March 2016)
Subordinated Debt Programme	485.00	[ICRA]AAA (stable) Assigned

ICRA has assigned a rating of [ICRA]AAA (pronounced as ICRA Triple A) to the Rs. 485 Crore Subordinated Debt Programme of ICICI Lombard General Insurance Company Limited (IL). The outlook on the rating is stable.

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] and Fairfax Financial Holdings Limited[3]). The presence of a shared brand name strengthens ICRA's assumption that IL is expected to receive capital support from its parent companies as and when the need arises. While subordinated debt instruments cannot be serviced in case 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 places a strong onus on IL's parent companies to ensure that IL meets all required regulatory requirements (on a continual basis) for timely and adequately service debt obligations with respect to the stated instrument. The rating takes into account IL's market standing as India's largest private sector general insurer, consistently strong financial performance (both at an underwriting as well as at a net level), prudent risk management practices and dynamic reinsurance strategies. While the current operating environment remains challenging with lower industry business growth along with severe price undercutting in some segments, IL's focus on maintaining profitability and its competitive cost structure places it in a favourable position to compete in this challenging environment.

In terms of IL's portfolio composition, the motor insurance segment continues to be the largest (accounting for 51% of total GDPW[4]) followed by health insurance (accounting for 16% of total GDPW [4]) and fire insurance (accounting for 8% of total GDPW[4]) segments. In 9MFY2016, the company witnessed a growth of 20.43%YoY in GDPW driven by broad-based segmental growth with above-average traction in the crop insurance business. IL is amongst the few general insurers who have started offering long term motor insurance policy in FY2016. In health insurance segment, the management continues to focus on the retail business as pricing pressure in the group health segment remains elevated.

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 (43%[5] for 9MFY2016) and broker network (32%[4] for 9MFY2016) form the largest channels of distribution. The company has also invested in technology to provide impetus to virtual channels – which are known for their low costs and high TAT (turnaround times). IL's claim settlement ratio within the 30-day period for the motor segment (92% for 9MFY2016) is one of the best in the general insurance industry.

During FY2015, IL's GDP (Gross Direct Premium) de-grew by 2.60%% YoY to Rs. 6678 Crores from Rs 6856 Crores in FY2014 while its Net Premium Earned (NPE) de-grew by 2.70% YoY to Rs. 4235 Crores from Rs 4353 Crores in FY2014. The geographic concentration of its business remained almost similar to that of the previous year with the top 5 states (by GDP) accounting for 65% of total GDP as on March 2015 (vis-à-vis 61% as on March 2014). The company's underwriting performance improved compared to the previous year as the combined ratio moderated to 104.50% in FY2015 from 105.40% in FY2014. The softening combined ratio was supported by declining claims ratio[6] (moderated from 83.10% in FY2014 to 81.30% in FY2015) on account of lower claims from the health segment (claims ratio for health segment declined from 93% in FY2014 to 88% in FY2015). The Operating Expenses/NPW[7] ratio increased from 27.36% in FY2014 to 31.68% in FY2015 while

[1] As on March 31, 2016
[2] Rated at [ICRA]AAA with a stable outlook
[3] Rated Baa3 by Moody's
[4] During 9MFY2016
[5] In terms of gross premiums collected
[6] Net claims incurred/ Net Premium Written
[7] Net Premium Written

the net commissions/NPW stood at -8.44% in FY2015 as compared to -5.09% in FY2014 due to higher commission earned from the business ceded to re-insurers during FY2015. In 9MFY2016, the combined ratio deteriorated to 107.5% (vis-à-vis industry median of 118.3%) as the claims ratio inched up to 82.6% and Operating Expenses /NPW stood at 31.10% during the period. Claims ratio increased largely on account of the Chennai floods of November-December 2015 and the impact of El Nino in the weather business. Nevertheless, IL's reinsurance policy restricted the impact of the Chennai floods catastrophe on the net claims paid.

IL's retention ratio[8] had dropped to 63% in FY2014 from 65% for FY2013 and remained stable at 64% in FY2015. IL's retention ratios have remained stable in FY2015 as a consequence of declining retention in the fire insurance segment (where IL writes relatively high-ticket premia) which stands amply cushioned by hardening retention ratio in the health insurance segment (caused due to the company's higher emphasis on the more granular retail segment). In 9MFY2016, the retention ratio stood at 65%.

The company's investment portfolio continues to satisfactorily comply with all the regulatory requirements across asset classes/instruments. In order to boost rental income, IL made fresh investments in commercial real estate during FY2015. The management expects to continue investing in this segment so long as regulatory requirements are not breached. IL's equity portfolio stood at around Rs. 1285 Crores (11% of the total investment book) as on Dec-15. Other than a sizeable investment book (76% of total assets as on Dec-15), ICRA derives comfort from IL's solvency ratios that remain at higher levels than is mandated by regulations. As on Dec-15, its solvency ratio stood at 1.93 times (vis-à-vis 1.95 in Mar-15) and is adequately capitalised (as against 1.50 required as per regulations).

Company Profile

IL is a joint venture between ICICI Bank (ICICI) and Fairfax Financial Holdings Limited (FFHL), with the former presently holding 64% of the paid up capital as on March 31, 2016. For the year ended March 31, 2015, ICICI Bank reported net profits of Rs. 11,175 Crores on a total asset base of Rs. 6.46 Lakh Crores and had a regulatory capital adequacy of 17.02% (Tier1: 12.78%). FFHL is a Toronto based financial services holding company, with operating companies spread across Canada, US, Europe and the Far East.

Recent Results

During 9MFY2016, IL reported a Profit before tax (PBT) of Rs 541.21 Crores (Rs 527.96 Crores in 9MFY2015) and Profit after tax(PAT) of Rs. 388.28 Crores (Rs. 405.98 Crores in 9MFY2015) on a GDP of Rs. 6021.96 Crores (Rs 5000.47 Crores in 9MFY2015). The reported networth stood at Rs. 3435.13[9] Crores as on December 31, 2015.

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[8] Ratio of Net Premium Written to (Gross Direct Premium Written + Reinsurance Accepted)
[9] Includes Fair Value Change of Account

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