# ICICI Lombard General Insurance Company Limited

| Instrument/Facility | Amount in INR Crores | Rating Action (March 2016) |
|---|---|---|
| Claims Paying Ability | - | iAAA Reaffirmed |

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. The rating factors in the operational and financial support that IL receives from its parents ICICI Bank Limited (Rated at [ICRA]AAA with a stable outlook; holds 73% stake[1]) and Fairfax Financial Holdings Limited (Rated Baa3 by Moody's; holds 26% stake[2]) as well as the shared brand name with the former. The rating also 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. The rating also reflects IL's relative positioning with other ICRA-rated general insurance companies.

In terms of IL's portfolio composition, the motor insurance segment continues to be the largest (accounting for 47% of total GDPW[3]) followed by health insurance (accounting for 19% of total GDPW [3]) and fire insurance (accounting for 10% of total GDPW[3]) segments. In H1FY2016, the company witnessed an annualized growth of 18.80% 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 (44%[4] for H1FY2016) and broker network (31%[4] for H1FY2016) 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 H1FY2016) 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[5] (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 Management Expenses/NPE ratio increased from 28.30% in FY2014 to 33.10% in FY2015 while the net commissions/NPE stood at -8.80% in FY2015 as compared to -5.30% in FY2014 due to higher commission earned from the business ceded to re-insurers during FY2015. In H1FY2016, the combined ratio deteriorated to 107.20% as the claims ratio inched up to 83.30% and Management Expenses/NPE rose to 34.30% during the period. IL has been minimally impacted by the Chennai floods of November-December 2015 with the net impacted expected to be limited to Rs. 45 Crores (gross claims to be Rs 250 Crores).

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[1] Figure as on September 30, 2015.
[2] After the change in FDI norms of general insurance sector by the government which allows the foreign partner to raise its stake up to 49% in the Joint Venture, Fairfax Financial Holding has proposed to increase its stake in IL to 35% in H2FY2016.
[3] During H1FY2016
[4] In terms of gross premiums collected
[5] net claims incurred/ net premium written

IL's retention ratio[6] had dropped to 63% in FY2014 from 65% for FY2013 and remained stable at 64% in FY2015 and H1FY2016. IL's retention ratios have remained stable in FY2015 and in H1FY2016 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).

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. 1046 Crores (9% of the total investment book) as on Sep-15. Other than a sizeable investment book (75% of total assets as on Sep-15), ICRA derives comfort from IL's solvency ratios that remain at higher levels than is mandated by regulations. As on Sep-15, its solvency ratio stood at 1.94 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 73% of the paid up capital as on Dec-15. 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 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) with a reported networth of Rs. 3435.13[7] Crores as on December 31, 2015.

***March 2016***

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

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