December 08, 2023

PNB MetLife India Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	400.00	400.00	[ICRA]AA+ (Stable); reaffirmed
Total	**400.00**	**400.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating takes into account PNB MetLife India Insurance Company Limited's (PNB MetLife) strong promoter profile with MetLife International Holdings LLC's {MIHL; a part of MetLife Inc. (rated A3 by Moody's)} key operating subsidiary – Metropolitan Life Insurance Company (rated Aa3[1] by Moody's) – holding a 46.87% stake and Punjab National Bank[2] (PNB) holding a 30.00% stake as on September 30, 2023. The rating factors in PNB MetLife's strategic importance to the MetLife Group (the Group), as demonstrated by the significant investment made by the Group since the company's inception (acquired a ~15% stake in PNB MetLife from existing investors in FY2022), the strong representation on the board and the shared brand name. While the company reported a solvency of 1.74 times as on September 30, 2023, it has the headroom to raise additional sub-debt of ~Rs. 372 crore, which is likely to support its growth plans in the near term. Further, ICRA expects that PNB MetLife will receive timely support from the Group when required.

The company also receives strategic and operational support from MIHL, including product strategy. It benefits from PNB's shareholding, given the shared brand name and access to PNB's wide distribution network with the bank contributing 45-50% to the individual new business premium (NBP) in FY2023.

The rating also takes into account the company's diversified product profile, which is likely to support the growth. PNB MetLife's profitability has been improving with the embedded value (EV) increasing at a compound annual growth rate (CAGR) of 11.9% during FY2019-FY2023 to Rs. 6,115 crore as on March 31, 2023. Moreover, the 5-year average operating return on embedded value (RoEV) was 15.8% in FY2023. The profitability was partly supported by the high-margin non-participating (non-par) products, excluding pension, (49% of the overall new business premium (NBP) in FY2023). The company's ability to manage the interest rate risks for these products will remain monitorable in the long term. The profitability and capital position will also remain dependent on the long-term changes in the mortality rates, etc.

The rating is, however, constrained by the company's modest scale of operations with a market share of 1.6%, in terms of individual NBP, and 0.9% on an overall NBP basis in FY2023. The ability to diversify its distribution channels and improve the persistency levels would be a key determinant of improving the overall market position and profitability.

The Stable outlook factors in ICRA's expectation that the company will continue to improve its customer franchise while receiving support from the parent and maintaining the solvency level above ICRA's negative triggers.

[1] *Insurance Financial Strength Rating of Aa3*
[2] *Rated [ICRA]AAA (Stable) for its Basel III Tier II bonds*

Key rating drivers and their description

Credit strengths

Strong parentage – MIHL and PNB held stakes of 46.87% and 30.00%, respectively, in PNB MetLife as on September 30, 2023. MIHL increased its stake in the company by acquiring ~15% from the existing investors in FY2022. MIHL is a part of the MetLife Group, and its ultimate parent company is MetLife Inc. The MetLife Group's operating subsidiaries – Metropolitan Life Insurance Company, American Life Insurance Company (rated A1 by Moody's) and Metropolitan Tower Life Insurance Company (rated Aa3 by Moody's) – have strong credit profiles. The Group is a leading global provider of insurance and financial services products with PNB MetLife enabling it to establish a foothold in the Indian life insurance business. The rating factors in the strategic importance of PNB MetLife to the Group, which is demonstrated by the significant investment made by it since the company's inception and the shared brand name. This strengthens ICRA's expectation that the company will receive timely support from the Group, if required. Further, MetLife along with PNB has strong representation on PNB MetLife's board with MetLife having six representatives and PNB having four representatives on the board. PNB is the fourth largest public sector bank in terms of net advances with the second largest distribution network of 10,092 branches, as on September 30, 2023, spread across the country. This enables PNB MetLife to leverage the bancassurance channel to source business, with PNB contributing 45-50% to the individual NBP in the past few years.

PNB MetLife's reported solvency stood at 1.74 times as on September 30, 2023 (1.86 times as on March 31, 2023) compared to the regulatory requirement of 1.5 times and ICRA's negative trigger of 1.7 times on a sustained basis. Given its growth plans, the company is likely to require capital in the medium term. It has headroom for raising additional sub-debt of ~Rs. 372 crore as of September 30, 2023, which could boost its solvency to 1.99 times on a pro-forma basis as on September 30, 2023. Further, ICRA expects support from the parent to be forthcoming if required. The company's solvency is also supported by the funds for future appropriation (FFA) on the par products. The FFA stood at 28.5% of the available solvency margin (ASM) as on September 30, 2023.

Diversified product offering – PNB MetLife has a diversified product offering in the individual segment, which stood at 71.3% of the NBP in FY2023, with a presence in the savings as well as protection business. The non-par business formed 34% of the individual NBP in FY2023 (38% in FY2019), followed by the par business at 33% (20%), unit-linked insurance plan (ULIP) business at 25% (35%), pension business at 6% (2%) and protection at 2% (5%). Within group, the portfolio largely comprises group protection (both credit life and group term) with a sizeable portion of the credit life business being sourced from PNB (including PNB Housing Finance). The product mix is likely to remain diversified with the company looking at growth across segments.

Healthy growth in profitability – The company's absolute VNB has been increasing over the years (Rs. 550 crore in FY2023 compared to Rs. 314 crore in FY2019), mainly driven by the growth in the APE, while the VNB margin remained flattish (21.1% in FY2019 versus 21.3% in FY2023). Further growth in the VNB is likely to be subdued in the medium term due to the likely compression in the VNB margins. The margins will be impacted by the change in the individual business mix due to the changes in the tax regulations in the last Budget. The EV increased at a CAGR of 11.9% during FY2019-FY2023 to Rs. 6,115 crore as on March 31, 2023, with a 5-year average operating RoEV of 15.8%.

PNB MetLife reported a net profit of Rs. 112 crore compared to a net loss of Rs. 71 crore in FY2022, mainly driven by the decline in death claims amid the waning of Covid-19 infections. Further, with the growth in the non-par and protection segments, which have high initial reserving requirements, the average return on equity (RoE) was 7.6% during FY2020-FY2023 (excluding FY2022).

Credit challenges

Operating expenses relatively higher than peers – The company's operating expense ratio (including commissions) remained high at ~23-24% of the net premium written (NPW) during FY2021-FY2023 compared to peers due to the relatively lower scale.

Given its growth plans, the operating expenses are likely to remain elevated in the near term. PNB MetLife's ability to improve its operating efficiency would be important for incremental profitability.

Moderate scale of operations – PNB MetLife's operations remain moderate with a market share of 1.6% in FY2023 on the basis of individual NBP and 0.9% on an overall NBP basis. The company's distribution is largely driven by PNB, contributing 45-50% to the individual NBP in the past few years. ICRA believes that PNB MetLife will require deeper penetration and widening of its distribution network, product development and continuous investment in technology and marketing to keep its business growth above the industry level and improve its market position.

Persistency levels improving with scope for further improvement – The company's persistency ratio improved over the last few years with a 13th month persistency of 80.0% in FY2023 (76.1% in FY2021). While the persistency levels are improving, there is scope for further improvement especially in the later cohorts (61st month persistency stood at 45.3% in FY2023). The consistent improvement in PNB MetLife's persistency across cohorts would remain crucial for liquidity and incremental profitability in the individual business.

Liquidity position: Strong

The company's net premium (excluding ULIP) stood at Rs. 6,714 crore in FY2023 in relation to the maximum net claims and benefits (excluding ULIP) paid of Rs. 1,808 crore in the last few years. Its operating cash flows were positive in FY2023, reflecting its ability to meet the expenses and claims and benefits payments through premium inflows. In addition, investments in Central and state government securities stood at Rs. 20,374 crore, accounting for 60% of the total investments (excluding ULIP) as on September 30, 2023, which supports the liquidity to meet the claims of policyholders in the event of a rise in policyholders' claims. The shareholders' investment of Rs. 1,896 crore also remains strong in relation to the sub-debt outstanding of Rs. 400 crore as on September 30, 2023.

Rating sensitivities

Positive factors – The rating could be revised if there is a substantial and sustained increase in the company's market share and profitability, leading to an improvement in its financial risk profile.

Negative factors – The outlook or the rating could be revised in case of a deterioration in the credit profile of the MetLife Group, a significant change in the company's shareholding or in its linkages with the Group. Pressure could also arise if the company's solvency ratio deteriorates to less than 1.7 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Life Insurance Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent/Investor: MetLife Group The rating factors in the high likelihood of support from the MetLife Group, given the shared brand name and MetLife's representation on the board.
Consolidation/Standalone	Standalone

About the company

PNB MetLife India Insurance Company Limited (PNB MetLife) was incorporated in April 2001 with the promoters – MetLife International Holdings LLC and PNB – holding a stake of 46.87% and 30.00%, respectively, as on September 30, 2023. PNB MetLife's product portfolio comprises retail and group products, which include participating, non-participating, unit linked, protection and annuity products. As of March 31, 2023, the company is present in 139 branches across the country with access to over 150 million customers through more than 18,600 bank branches through strong bank partnerships with PNB, Jammu & Kashmir Bank, Karnataka Bank Limited and other bank partners.

Key financial indicators (audited) – Standalone

	FY2022	FY2023	H1 FY2023	H1 FY2024
Gross direct premium income	7,348	8,785	3,583	3,959
Income from investments and fees ^	3,054	2,162	915	2,433
Total operating expense	1619	1981	876	975
Net transfer to shareholders' account (excluding transfer from shareholders to policyholders)	(172)	41	9	48
PAT	(71)	112	40	91
Total net worth (adjusted for accumulated losses)	1,350	1,453	1,390	1,544
Total policyholders' + Shareholders' investments@	26,298	31,383	28,359	33,781
Value of new business margin	23.7%	21.3%	24.5%	18.3%
Return on equity	(5.1)%	8.0%	5.9%	12.0%
13th month persistency ratio	79.5%	80.0%	81.6%	81.6%
61st month persistency ratio	44.3%	45.3%	46.0%	45.2%
Regulatory solvency ratio (times)	2.09	1.86	1.98	1.74

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
^ Income from investment and fees includes other income
@ Investments exclude linked investments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Dec 08, 2023	Dec 13, 2022	Dec 17, 2021	NA
1	Subordinated debt programme	Long term	400.00	400.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	NA

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE207O08019	Subordinated debt	Jan-27-2022	8.12%	Jan-27-2032*	400.00	[ICRA]AA+ (Stable)

Source: PNB MetLife

** The company has a call option, which is exercisable five years from the date of allotment and at the end of every year thereafter before the redemption date*

The rating factors in the key features of the subordinated debt instrument:

- Servicing of interest is contingent on the company maintaining a solvency ratio above the level stipulated by the regulator[3]
- In case the interest payouts lead to a net loss or an increase in the net loss, prior approval of the regulator would be required to service the debt

Annexure II: List of entities for combined analysis with consolidated analysis

Company Name	Ownership	Consolidation
NA	NA	NA

[3] *As per IRDAI regulations, insurers are required to maintain a minimum solvency ratio of 150%*

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Abhilash Rathi
+91 22 6114 3421
abhilash.rathi@icraindia.com

Jui Kulkarni
+91 22 6114 3427
jui.kulkarni@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

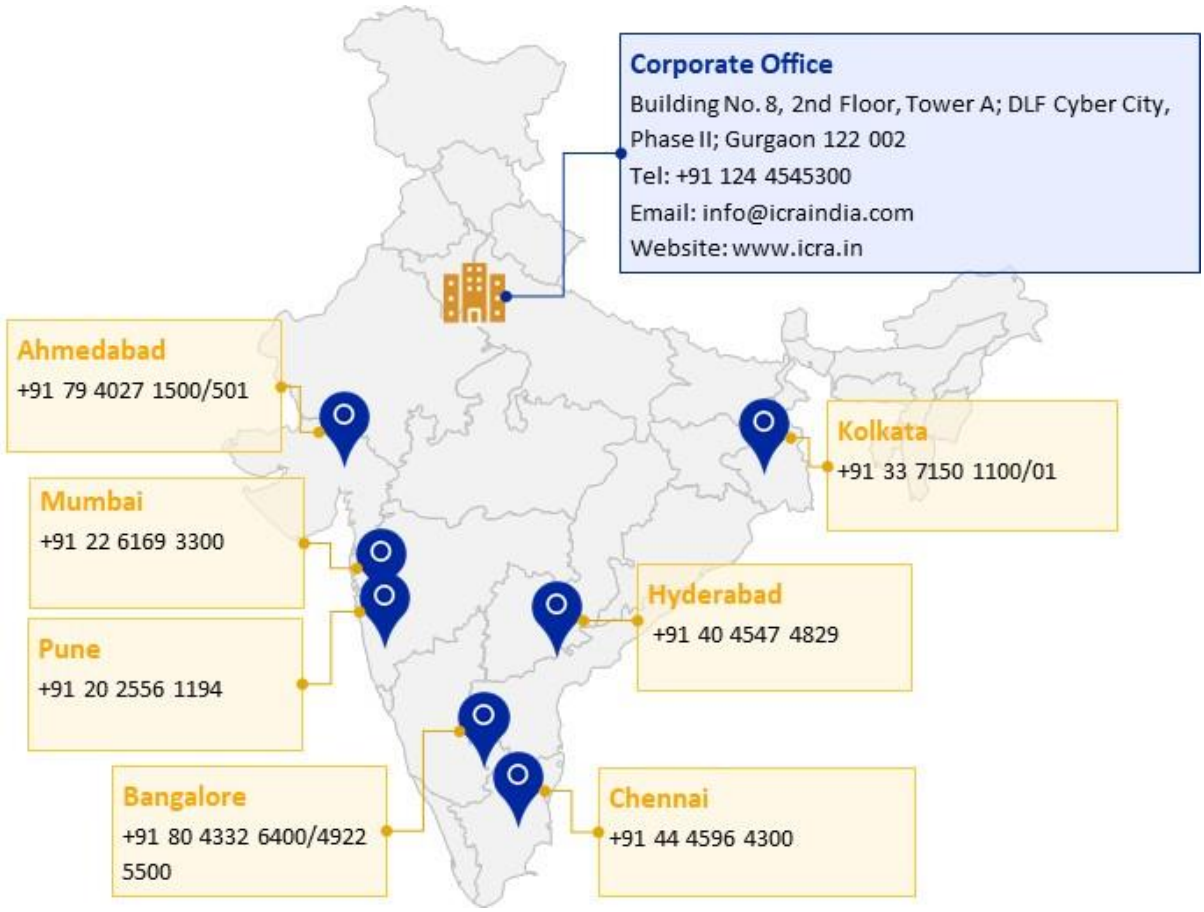
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.