July 11, 2024

ICICI Lombard General Insurance Company Limited: Rating reaffirmed; rating reaffirmed & withdrawn for Rs. 35-crore subordinated debt programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Subordinated debt programme	35.00	35.00	[ICRA]AAA (Stable); reaffirmed and withdrawn
Total	35.00	35.00	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in ICICI Lombard General Insurance Company Limited's (ICICI Lombard) strong market position. The company is the largest private general insurer with a market share of 8.9%[1] in terms of gross direct premium income (GDPI) in FY2024. It has an established presence across the retail as well as corporate segments. This is supported by its diversified distribution mix, which has aided growth.

ICICI Lombard's capitalisation remains strong with a reported solvency of 2.62 times as on March 31, 2024 (compared to the required regulatory level of 1.50 times), supported by healthy internal accruals. Its profitability remains healthy with an average return on equity (RoE)[2] of 17.2% in the last five years. Given the strong solvency and the expectation that internal accruals will remain healthy, ICRA does not expect the company to require any capital infusion in the medium term.

ICRA notes the high share of motor-third party (motor-TP; 19.8% of GDPI in FY2024), which exposes ICICI Lombard to reserving risks as this segment is long tail in nature. However, the company's loss-reserving triangle, which involves actuarial estimates, indicates that it has maintained adequate reserves in the past as evidenced by the favourable claims experience in the last few years in the Motor-TP segment as well as other lines of business.

The rating also factors in the strong promoter profile with ICICI Bank Limited {ICICI Bank; rated [ICRA]AAA (Stable)}[3] holding an equity stake of 51.27% as on March 31, 2024. ICICI Bank received regulatory approval in August 2023 to increase its shareholding in ICICI Lombard by up to 4.0% in multiple tranches. In line with this, the bank increased its stake to 51.27% as on March 31, 2024, from 48.02% as on March 31, 2023, and the company became subsidiary of the bank. The rating considers the shared brand name, ICICI Lombard's strategic importance to ICICI Bank and the bank's representation on its board of directors, which strengthen ICRA's expectation of adequate and timely capital support if required.

The Stable outlook reflects ICICI Lombard's robust distribution network, which will help it maintain its market position, and the expectation that it will continue to receive support from ICICI Bank, if required, and will maintain the solvency level above ICRA's negative triggers.

ICRA has withdrawn the rating assigned to the Rs. 35-crore subordinated debt programme at the company's request and in accordance with ICRA's policy on the withdrawal of credit ratings. No amount is outstanding against the rated instrument.

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[1] The market share calculation excludes ECGC Ltd. and Agriculture Insurance Company of India Limited
[2] Return on equity (RoE) = Net profit / Net worth excluding fair value change account
[3] For Basel III Tier II bonds

Key rating drivers and their description

Credit strengths

Strong parentage ensures financial flexibility and managerial support – ICICI Lombard is a publicly listed general insurance company, with ICICI Bank as a promoter, holding 51.27% of the outstanding shares as on March 31, 2024. ICICI Bank is a systemically important private sector bank in India. As per ICRA's estimates, it had a 7.2% share in the Indian banking sector advances on March 31, 2024 (7.5% as on March 31, 2023) and a 17.8% share (19.9% as on March 31, 2023) in private sector bank advances as on March 31, 2024. With a presence in banking, insurance, asset management, investment banking and private equity, the ICICI Group is a large player in the Indian financial system. As of March 31, 2024, it had 6,523 branches and 17,190 ATMs. The strong parentage and shared brand name strengthen ICRA's expectation that the company will receive timely support, if required. Moreover, ICICI Lombard benefits from a strong and experienced management team as well as board representation by senior executives of the parent company.

Established market position, supported by diversified products and distribution channels – ICICI Lombard is the largest private general insurer with a market share of 8.9% in FY2024 (8.7% in FY2023) in terms of GDPI. ICICI Lombard's products are relatively well diversified, and its key segments include motor, health and fire. The motor segment, though declining in share, continues to be the largest contributor, accounting for 39.8% of the total GDPI in FY2024 compared to 40.8% in FY2023. Driven by significant growth in recent years, the share of the health, travel and personal accident segment increased substantially to 28.7% in FY2024 (22.3% in FY2022). Apart from motor and health, the company has a strong presence in the fire segment, which accounted for 13.6% of the GDPI in FY2024.

ICICI Lombard sources its business from different distribution channels, thereby strengthening its business profile. Brokers and direct business contributed 48.5% and 19.4%, respectively, to the GDPI in FY2024. Further, distribution is supported by the company's bancassurance and key relationships group which grew by 20.2% year-on-year (YoY) in FY2024 within this ICICI Group grew by 22.5% YoY in FY2024.

Strong capitalisation, supported by healthy profitability – ICICI Lombard's capitalisation remained strong with a solvency of 2.62 times as on March 31, 2024, significantly above the regulatory requirement of 1.50 times. The capitalisation has been supported by healthy internal accruals, with an average RoE of 17.2% in the last five fiscals (FY2020 to FY2024). Despite an average dividend payout ratio of 25.6% in the last five years, the adjusted net worth[4] increased at a compound annual growth rate (CAGR) of 17.6% during FY2019-FY2024. The capitalisation profile has been strong without any capital infusion from the promoters in the recent past. ICRA does not expect any capital infusion requirement as the solvency ratio is sufficiently strong for supporting the growth in the medium term. Further, the headroom to raise sub-debt provides some financial flexibility. The company's reserving levels for the long-tail business segments have historically remained prudent while the claims experiences have stayed within the original estimates, providing comfort regarding the level of provisions created against the risk underwritten.

The company's profitability remains healthy with an RoE of 16.0% in FY2024 (16.6% in FY2023). Although it has been reporting underwriting losses, the underwriting performance improved with a combined ratio of 103.3% in FY2024 (104.5% in FY2023) and it continues to perform better than the industry. Investment income earned from the float generated through business (investment leverage[5] stood at 4.09 times as on March 31, 2024) has helped ICICI Lombard report a healthy RoE despite the underwriting losses.

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[4] *Net worth excluding fair value changes*

[5] *Investment leverage = (Total investment – Sub-debt)/Net worth)*

Credit challenges

High share of long-tail business exposes the company to reserving risks – A major risk faced by an insurance company is the underwriting of the business at adequate premium pricing in relation to the underwritten risk. The uncertainty regarding the extent of claims is relatively higher in the Motor-TP segment, which accounted for ~19-23% of ICICI Lombard's total GDPI in the last few years (declined to 19.8% in FY2024 from 21.1% in FY2023). The long-tail nature of the Motor-TP segment, given the legal process involved for claims settlement, could result in uncertainty regarding the level of future claims in relation to the past reserves made for this segment. The company's loss-reserving triangle, which involves actuarial estimates, indicates that it has maintained adequate reserves in the past and the favourable claims experience in this segment vis-à-vis reserving during the last few years. As a prudent measure in recent years, the company restricted the release from reserves until the claims experience emerged, reflecting a prudent reserving philosophy. However, the eventual outcome for the risk-in-force may be known with considerable lag, which could impact its future profitability and solvency. Further, the profitability of this segment could be impacted as the pricing of Motor-TP rates is regulated.

Environmental and social risks

The health, mortgage, and trade credit insurance business undertaken by ICICI Lombard faces low environmental risks, unlike property or asset insurance that is exposed to risks emanating from natural or climate-change-related calamities. Such events do pose material risk of elevated claims, higher than those modelled, that could adversely impact the financial performance. While the ability of insurers like ICICI Lombard to reprice insurance policies on an annual basis mitigates this risk slightly, the increasing incidence of catastrophic losses linked to climate change adds to the underwriting complexity. Climate change contributing to water shortage and droughts can also result in losses in the business relating to agricultural insurance, but this is just one among the other lines of business of ICICI Lombard and does not by itself contribute to pushing up the credit risk materially.

The social risk faced by ICICI Lombard stems from the potential mishandling of sensitive customer data and privacy breaches. This could impact the credit profile in the form of regulatory penalties or reputation damage. Human capital risks are also quite high for general insurance companies like ICICI Lombard with challenges related to the recruitment and retention of key employees.

Liquidity position: Strong

ICICI Lombard's net premium was Rs. 18,166 crore in FY2024 in relation to the maximum net claims paid of Rs. 10,019 crore in the last few years, reflecting strong ability to pay claims from the operating cash flow. Additionally, it had investments in Central/state government securities of Rs. 20,118 crore, accounting for 41.1% of the total investments as on March 31, 2024, supporting the liquidity further to meet any unexpected rise in the claims of policyholders. Shareholders' investments of Rs. 11,587 crore remained strong in relation to the Rs. 35-crore sub-debt outstanding as on March 31, 2024. The company subsequently exercised the call option and redeemed the sub-debt in full by paying the principal and final interest on April 30, 2024.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A deterioration in the credit profile of ICICI Bank or a decline in the strategic importance of ICICI Lombard to ICICI Bank or in the expectation of support from the promoter will be a negative factor. A decline in the company's solvency ratio to less than 1.70 times on a sustained basis will also be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Issuer Rating Methodology for General Insurance Companies Impact of Parent or Group Support on an Issuer's Credit Rating Policy on Withdrawal of Credit Ratings
Parent/Group support	Parent/Group Company: ICICI Bank Limited The rating factors in the high likelihood of support from ICICI Bank, given the shared brand name and representation on the board
Consolidation/Standalone	Standalone

About the company

ICICI Lombard is a publicly listed general insurance company. ICICI Bank is a promoter, holding 51.27% of the outstanding shares. ICICI Lombard offers a comprehensive and well-diversified range of products, including motor, health, crop/weather, fire, personal accident, marine, engineering and liability insurance, through multiple distribution channels. It is the largest private general insurance company in India with a market share of 8.9% as of March 31, 2024.

Key financial indicators (audited)

ICICI Lombard	FY2023	FY2024
Gross direct premium	21,025	24,776
PAT	1,729	1,919
Net worth*	10,606	12,950
Total investments	43,180	48,907
Combined ratio	104.5%	103.3%
Return on equity^	16.6%	16.0%
Solvency ratio (times)	2.51	2.62

Source: ICICI Lombard, ICRA Research; Note: Amount in Rs. crore; All calculations are as per ICRA Research
**Net worth includes fair value change account*
^ PAT/Net worth excluding fair value changes

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**11-JUL-24**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Subordinated debt programme^	Long Term	35.00	[ICRA]AAA (Stable); withdrawn	12-SEP-2023	[ICRA]AAA (Stable)	26-SEP-2022	[ICRA]AAA (Stable)	27-SEP-2021	[ICRA]AAA (Stable)
Issuer rating	Long Term	-	[ICRA]AAA (Stable)	12-SEP-2023	[ICRA]AAA (Stable)	26-SEP-2022	[ICRA]AAA (Stable)	18-MAY-2021	[ICRA]AAA (Stable)
Issuer rating	Long Term	-	-	-	-	-	-	26-AUG-2021	[ICRA]AAA (Stable)
Issuer rating	Long Term	-	-	-	-	-	-	27-SEP-2021	[ICRA]AAA (Stable)

^ Transferred from Bharti AXA General Insurance Company Limited

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Moderately Complex
Issuer Rating	Not Applicable

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
INE513L08024*	**Subordinated debt**	Apr-30-2019	10.50%	Apr-29-2029	35.00	[ICRA]AAA (Stable); withdrawn
NA	**Issuer Rating**	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: ICICI Lombard, ICRA Research

** The company has exercised the call option and redeemed the debentures in full by paying the principal and final interest on April 30, 2024*

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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.

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.

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