

December 02, 2024

ICICI Prudential Life Insurance Company Limited: Rating assigned/reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	1,200.00	1,200.00	[ICRA]AAA (Stable); reaffirmed
Subordinated debt programme	-	1,400.00	[ICRA]AAA (Stable); assigned
Total	1,200.00	2,600.00	

*Instrument details are provided in Annexure I

Rationale

The rating factors in ICICI Prudential Life Insurance Company Limited's (ICICI Pru) established market position – it is one of the largest private life insurer in the individual segment. ICICI Pru has a diversified product offering and distribution network and ICRA expects it to maintain its market position. The company's capitalisation remains supported by healthy internal accruals with a reported solvency of 1.89 times as on September 30, 2024 (compared to the required regulatory level of 1.50 times). The profitability remains healthy with an average RoE¹ and RoEV² of 10.1% and 14.6%, respectively, in the last five years.

The rating also factors in the strong promoter profile with ICICI Bank Limited³ (ICICI Bank) holding 51.1% and Prudential Corporation Holdings Limited⁴ (Prudential) holding 22.0% in ICICI Pru as on September 30, 2024. The rating considers the company's strategic importance to ICICI Bank and the shared brand name, which strengthens ICRA's expectation that it is likely to receive timely and adequate support from ICICI Bank, if needed.

ICICI Pru's value of new business (VNB) remained healthy at Rs. 2,227 crore in FY2024 compared to Rs. 1,328 crore in FY2019, though it declined on a sequential basis from Rs. 2,765 crore in FY2023 mainly due to the change in the product mix, competitive pressure on pricing and increase in expenses. While the company recorded healthy growth in the individual business in H1 FY2025, its ability to continue growing this business will be a driver of its overall profitability as VNB growth will incrementally depend largely on annual premium equivalent (APE) growth. The profitability and solvency may also remain susceptible to changes in the actuarial assumptions, leading to long-term changes in the reserving requirements.

The Stable outlook factors in the expectation that the company will continue to receive support from ICICI Bank, if required, and will maintain its solvency level above the negative rating trigger.

Key rating drivers and their description

Credit strengths

Strong promoter profile – ICICI Bank and Prudential held 51.1% and 22.0%, respectively, in ICICI Pru as on September 30, 2024. The majority shareholder, ICICI Bank, is a systemically important private sector bank in India. As per ICRA's estimates, the bank had a 7.2% market share in the Indian banking sector advances and a 17.8% share 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. ICICI Pru is the life insurance subsidiary and an exclusive life insurance partner of ICICI Bank. The strong parentage and shared brand name with ICICI Bank along with board supervision strengthen ICRA's expectation that the company will receive timely support if required. The foreign promoter, Prudential Plc, is a multinational

¹ Return on equity (RoE) – Profit after tax / Net worth excluding fair value change account

² Return on embedded Value (RoEV) – Embedded value operating profit / Opening embedded value

³ Rated [ICRA]AAA (Stable) for its Basel III Tier II bond

⁴ A2 is Long Term Issuer Rating

insurance company headquartered in London and Hong Kong. It provides life and health insurance along with asset management.

Leading market position with diversified product and distribution channels – ICICI Pru is a well-established player in the life insurance space. It is one of the largest private insurers and had a market share of 6.6% in terms of individual APE and 4.8% in terms of overall new business premium (NBP) in FY2024 (7.0% and 4.6%, respectively, in H1 FY2025), as per ICRA's estimates. The company has a diversified product offering across the savings, annuity, and protection businesses with a focus on serving varied customer needs across the life stages of the customer. The product mix comprised unit linked insurance plans (ULIPs); 43.2% of the overall APE in FY2024, non-linked savings (25.8%), protection (16.9%), annuity (10.5%), and group funds (3.5%). Within protection, retail contributed 31.4%, followed by credit life (39.4%) and group term (29.2%).

The company has an exclusive tie-up with ICICI Bank. However, the proportion of business generated from ICICI Bank has decreased over the past few years due to the bank's increased focus on its banking products. As a result, the share of business sourced, in terms of retail APE from ICICI Bank, decreased to 12-15% of the overall APE in FY2024 from about 51% in FY2019, leading to a decline in the share of bancassurance sourcing to ~29% from ~55% during this period. However, during the last five years, the company has transitioned its distribution profile and its diversification strategy ensures that all channels contribute to growth. Apart from ICICI Bank, the company has tie-ups with 44 banks and more than 1,200 non-bank partnerships. It continues to build capacity and had more than 2,11,000 agents as on September 30, 2024.

Healthy profitability supports solvency position – ICICI Pru's absolute VNB has been increasing over the years (Rs. 2,765 crore in FY2023 compared to Rs. 1,328 crore in FY2019), primarily driven by the growth in the higher-margin non-participating (non-par) and protection segments in the product mix. Although the VNB declined in FY2024 to Rs. 2,227 crore, it remains healthy. The VNB margin, which had been on an improving trend (32.0% in FY2023 from 17.0% in FY2019) declined in FY2024 (24.6%). The increase in the share of ULIP as well as the decline in the share of the higher-margin non-par segment in individual business, higher competition and rise in operating expenses led to the lower VNB margins. Going forward, the improvement in the absolute VNB will largely depend on APE growth. The embedded value (EV) increased at a compound annual growth rate (CAGR) of 14.4% during FY2019-FY2024 to Rs. 42,337 crore as on March 31, 2024 (Rs. 46,018 crore as on September 30, 2024), while the 5-year average RoEV was 14.6%. The company's persistency level improved further in FY2024 across most cohorts, supporting the profitability.

ICICI Pru's reported solvency stood at 1.89 times, as on September 30, 2024, compared to the regulatory requirement of 1.50 times. The capital consumption over the last few years was driven by the high growth in the sum assured. No capital was infused in the company in the recent past (except through employee stock ownership plans – ESOPs) and the solvency level was largely supported by healthy internal accruals.

The ability to maintain prudent asset-liability management, to mitigate the interest rate risk arising from the deployment of future policy premiums at remunerative rates, and achieve operating experience (such as persistency, mortality, operating costs, and interest rates), in line with the assumptions at the time of policy underwriting, will remain the key driver of the long-term profitability and capitalisation.

Credit challenges

Ability to improve premium growth and profitability – The premium growth was lower in FY2024 for the industry (individual NBP growth of 3.7% in FY2024), largely on account of the headwinds due to the change in taxation, given the Budget announcement regarding taxation on returns from life policies with a premium of more than Rs. 5 lakh per annum applicable after March 2023. Additionally, the company had previously seen a decline in the private market share in the individual

segment (9.9% in FY2023⁵ from 17.7% in FY2019). Although this started improving in FY2024 and continued to do so in H1 FY2025 (10.3%), the sustainability of the same while maintaining/improving the profitability remains to be seen.

The regulatory landscape for the life insurance sector has been evolving and is expected to have a bearing on the overall growth and profitability of the sector. The impact of the recent regulatory changes, leading to an increase in the surrender values of life insurance policies, on the commission structure, persistency ratios and profitability will remain monitorable.

Environmental and social risks

Life insurance companies like ICICI Pru typically invest in long-term debt securities and equity and have broadly diversified portfolios, including exposure to sectors affected by environmental risks. However, active portfolio management mitigates this risk. While pollution and other environmental damage could somewhat affect mortality rates in the long run, the overall trends towards increased environmental regulation mitigate this risk. Life insurers, which underwrite policies only in a limited region, could be more affected by natural and man-made disasters. However, ICICI Pru does not face such risks, given its large scale and diversified business.

As for social risks, even though lifespans have increased, changing lifestyles, increased obesity levels and pandemic/other disease-induced mortalities could have an adverse impact on long-term mortality/morbidity rates. Accordingly, future claims could be higher than currently estimated. Increase in mortality rates could affect ICICI Pru's financial performance as it would be required to raise the reserving against possible future claims on the business written in the past. Other social risks stem from the potential mishandling of sensitive customer data and privacy breaches. This could impact the credit profile in the form of regulatory penalties or reputational damage. Human capital risks are also quite high for life insurance companies like ICICI Pru with challenges related to recruiting and retaining key employees.

Liquidity position: Superior

The company's net premium (excluding ULIP) stood at Rs. 22,244 crore while the net claims and benefits (excluding ULIP) paid stood at Rs. 6,654 crore in FY2024. Although the operating cash flow was negative in FY2024 and H1 FY2025, it was mainly due to the high benefit payouts in the ULIP segment, which poses limited market risk to the company. Within the investments (excluding ULIP), the share of Central and State government securities stood at Rs. 88,572 crore, accounting for 66.3% of the total investments as on September 30, 2024, further supporting the policyholders' liabilities. The shareholders' investment of Rs. 9,367 crore also remains superior in relation to the sub-debt outstanding of Rs. 1,200 crore as on September 30, 2024.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Deterioration in credit profile of ICICI Bank or a decline in the strategic importance of ICICI Pru to ICICI Bank or dilution in the expectation of support from the promoter. Additionally, sustained decline in the company's solvency ratio to less than 1.70 times will be negative.

⁵ Private market share in terms of retail weighted received premium (RWRP) (individual APE)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Life Insurance Rating Approach – Consolidation Rating Approach – Implicit Parent or Group Support
Parent/Group support	Parent/Investor: ICICI Bank Limited The rating factors in the high likelihood of financial support from ICICI Bank to ICICI Pru, driven by reputational and strategic considerations.
Consolidation/Standalone	Consolidated

About the company

ICICI Pru is promoted by ICICI Bank Limited – one of India's foremost financial services companies, and Prudential Corporation Holdings Limited (Prudential), which is a part of a leading international financial services group – the Prudential Plc Group (headquartered in London and Hong Kong). As on September 30, 2024, ICICI Bank held 51.1% and Prudential held 22.0% in the company while the rest is publicly held.

Incorporated in July 2000, ICICI Pru offers vast and diversified products to cater to the specific needs of customers across different stages of life, enabling them to meet their long-term savings, life protection, healthcare, and retirement planning requirements. These products are offered under unit linked insurance plans (ULIPs), participating, non-participating, annuity, protection and group businesses. These are distributed through individual agents, corporate agents, banks, brokers, the company's proprietary sales force, website, micro agents, web aggregators, insurance marketing firms, etc.

Key financial indicators

ICICI Prudential Life Insurance Company (consolidated)	FY2023	FY2024	H1 FY2025
Gross direct premium income	39,933	43,236	19,459
PAT	813	851	475
Net worth	10,090	11,005	11,574
Total investments [^]	1,04,158	1,24,886	1,33,681
13th month persistency ratio	85.4%	88.7%	89.8%
61st month persistency ratio	67.3%	65.6%	65.9%
Solvency ratio (times)	2.09	1.92	1.89

Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations; [^]Excluding linked investments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)					Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Dec 02, 2024	Date	Rating	FY2024		FY2023		FY2022	
						Date	Rating	Date	Rating	Date	Rating
Subordinated debt programme	Long term	1,200.00	[ICRA]AAA (Stable)	01-Oct-24	[ICRA]AAA (Stable)	06-Oct-23	[ICRA]AAA (Stable)	12-Oct-22	[ICRA]AAA (Stable)	13-Oct-21	[ICRA]AAA (Stable)
Subordinated debt programme	Long term	1,400.00	[ICRA]AAA (Stable)	-	-	-	-	-	-	-	-

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
INE726G08014 [^]	Subordinated debt	Nov-06-2020	6.85%	Nov-06-2030*	1,200.00	[ICRA]AAA (Stable)
Yet to be issued ^{^^}	Subordinated debt	-	-	-	1,400.00	[ICRA]AAA (Stable)

Source: ICICI Pru

* 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 regulator⁶
- ^{^^} In case the solvency ratio is below the level stipulated by the regulator, or the interest payouts lead to a decline in the solvency ratio below the regulatory requirement, prior approval of the regulator would be required to service the debt;
- If 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 considered for consolidated analysis

Company Name	Ownership	Consolidation
ICICI Prudential Pension Funds Management Company Limited	100%	Full consolidation

⁶ As per IRDAI regulations, insurers are required to maintain a minimum solvency ratio of 150%

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About ICRA Limited:

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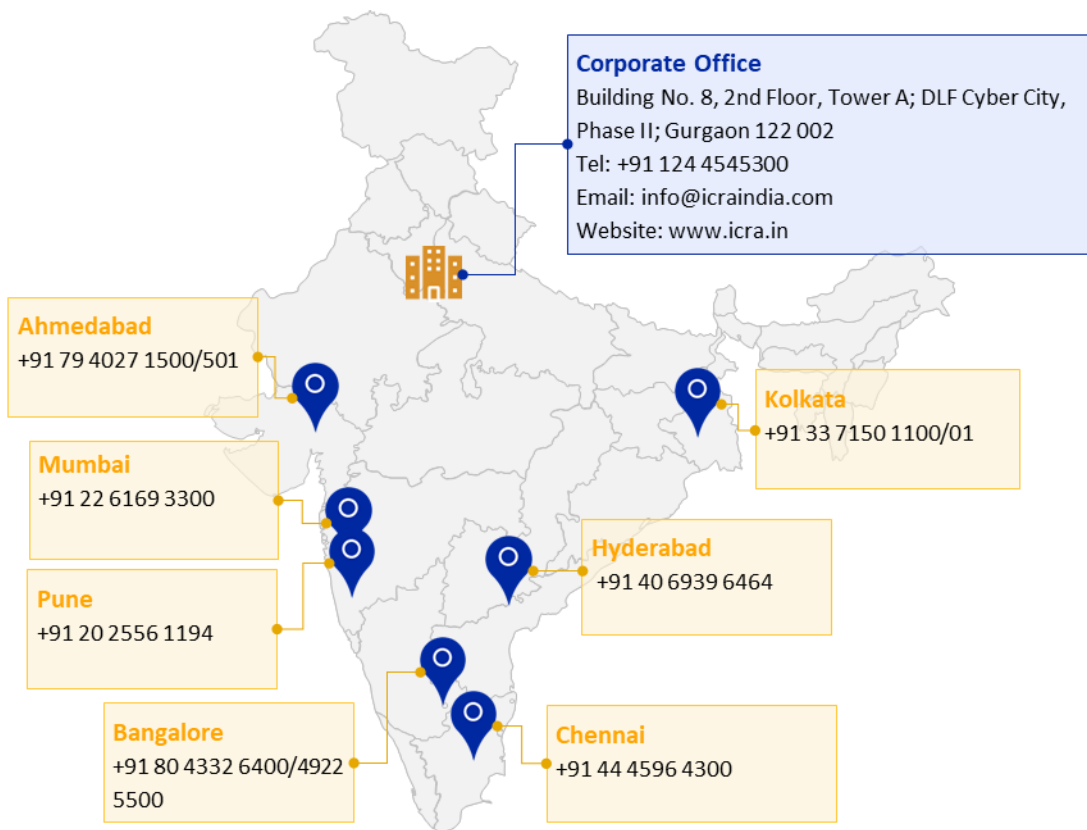
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