

## General Insurance Corporation of India

January 05, 2023

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Issuer rating*	--	CARE AAA; Stable	Reaffirmed

*Details of instruments/facilities in Annexure-1.*

*\*The rating is subject to the company maintaining solvency ratio above 1.5 times*

### Detailed rationale and key rating drivers

The rating assigned to General Insurance Corporation of India (GIC Re) continues to factor in majority ownership by Government of India (GoI holds 85.78% stake in GIC Re) and GIC Re's strategic importance as the dominant Indian reinsurer. The rating also factors in its experienced management, diversified business profile and comfortable liquidity and solvency position. The rating continues to factor in its volatile profitability on account of continuing underwriting losses. While CARE takes cognisance of reduction in underwriting losses during FY22 through conscious business measures, going forward, underwriting performance and its impact on solvency position shall be key monitorable.

CARE takes into account the qualification by the statutory auditor in its audit report for FY 2022 in respect of the reconciliation of receivables and payables, indicating deficiencies in internal financial controls. However, the auditor has relaxed the qualification in the limited review report for Q2FY23 on account of company strengthening its internal control system by implementing active reconciliation of its receivables in its accounting software.

### Rating sensitivities:

**Positive factors – Factors that could lead individually or collectively to positive rating action/upgrade: Not applicable**

**Negative factors – Factors that could individually or collectively lead to negative rating action/downgrade:**

- Significant reduction in sovereign ownership and support
- Deterioration in Solvency ratio below the regulatory requirement, i.e., 1.5 times
- Deterioration in underwriting performance and profitability on sustained basis

### Detailed description of the key rating drivers

#### Key rating strengths

#### **Ownership by Government of India and GIC Re's status as the dominant Indian reinsurer**

GIC Re's credit profile derives strength from its strong ownership. As on September 30, 2022, GoI held 85.78% shareholding in GIC. The rating also factors in GIC Re's strategic importance as a dominant Indian reinsurer in the domestic market. GIC Re is expected to maintain its market leadership by virtue of being the sole reinsurer in the domestic Indian market. According to the regulations, GIC Re gets a certain cession of reinsurance business as obligatory business domestically and has right of first refusal for residual risks, which is advantageous for GIC Re. GIC Re receives statutory cession of 4% (P.Y.: 5%) on each and every policy subject to certain limits.

#### **Experienced management**

GIC Re is managed by broad-based Board of Directors, chaired by CMD (Chairman and Managing Director), Mr Devesh Srivastava. Mr. Srivastava is an MBA from MDI Gurgaon and is associated with the insurance sector (both life and non-life) since 1987. He was also one of the key members in setting up of GIC Re's Lloyds Syndicate in London. The Board of Directors comprises CMD, one nominee director by GOI and two independent directors. The operations of the company are conducted by a competent management team, consisting of professionals having vast experience in insurance and reinsurance sector.

#### **Well diversified business profile in reinsurance**

Around 35% of GIC's total Gross Premium Written (GPW) in FY22 was sourced from overseas business [FY21: 36%] with a view to reduce dependence on domestic business given the possible entry of the foreign players and increased retentions by the domestic players. GIC Re has target of 60:40 composition between domestic and foreign business contribution. In terms of business mix for FY22, major contributors were fire (30%), Motor (23%), Agri (18%) and health (10%) and Life (3%) contributing to roughly 85% of the overall premiums.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

GWP has been on a declining trend and has declined from Rs.47,014 crore as on March 31, 2021, to Rs.43,208 crore as on March 31, 2022. Company reported drop in premium levels in Marine business (both, cargo, and hull), aviation and agriculture as well. During H1FY23, company reported a GWP of Rs.19,122 crore, down by 16% from the corresponding period last year. As per company's strategy, it is cutting down its lossmaking treaties especially in Agri business wherein it faced higher underwriting losses. Company also reduced its business in FY22 from some highly covid impacted sectors.

### **Improving asset quality with no new NPA's**

The provisions of Insurance Act and guidelines issued by IRDAI determine the broad composition of GIC Re's investments. Further, GIC Re's investment policy is based on three considerations of safety, return and liquidity, in the given order.

The company reported Gross NPA of 2.86% and Nil Net NPA as on March 31, 2022, as against GNPA of 3.58% and nil NNPA as on March 31, 2021.

The Corporation has 3 large NPA which includes investments in debt instruments of IL&FS (Rs.790 crore), DHFL (Rs.132 crore) & Reliance ADAG group (Rs.460 crore). It has provided 100% against all the NPA's. Company expects some recovery from its exposure from IL&FS and Reliance ADAG exposure in FY2022-23. However, it is contingent considering the legal complexities involved in the deal.

### **Improvement in Solvency position and comfortable capital position**

GIC Re has reported improved Solvency ratio of 1.96x as on March 31, 2022, as against 1.74x as on March 31, 2021. The company has pruned its loss-making treaties thereby reducing the overall business, increased the pricing in most of the segments to improve underwriting profitability metrics. Management has taken certain steps for improving underwriting performance such as commissions pay-offs under sliding scale nature so as to reduce losses and, reduction in agriculture portfolio since that was leading to higher losses. Further, within Agri reinsurance, the company mainly reinsures agriculture portfolio of mainly private sector insurance companies which have lower claims ratio due to better monitoring and exiting the lossmaking treaties. Underwriting losses are off-set by investment income which supports the overall profitability and solvency position. Solvency ratio has further improved to 2.25x as on September 30, 2022.

Tangible net-worth of the company stood at Rs.24,476 crore as on March 31, 2022 (P.Y. Rs.22,471 crore) and no external borrowings as on date.

### **Key rating weaknesses**

#### **Underwriting losses impacting overall profitability**

GIC Re reported a profit after tax of Rs.2,005 crore on Gross Premium Written of Rs.43,208 crore for FY22 as against profit after tax of Rs.1,920 crore on Gross Premium Written of Rs.47,014 crore in FY21, largely on account of reduction in commission from 20.03% of Earned premium to 17.69% and increase in investment income. The corporation is pruning high risk portfolio in Agriculture and other sectors which has also led to decrease in Gross premium under written supported by improvement in the underwriting losses.

Company has reported improvement in underwriting losses in its major business segments such as Fire from Rs.1,540 crore in FY21 to Rs.977 crore in FY22, in health from Rs.1,529 crore in FY21 to Rs.667 crore in FY22 and in Agri from Rs.997 crore in FY21 to Rs.187 crore however, it continued to face higher losses in life sector increasing from Rs.235 crore in FY21 to Rs.1,478 crore in FY22 on account of covid induced claims.

During H1FY23, the company reported PAT of Rs.2,550 crore on Gross Premium Written of Rs.19,122 crore as against reported PAT of Rs.239 crore on Gross Premium Written of Rs.22,665 crore during H1FY22 on account of substantial reduction in incurred claims from Rs.21,434 crore for H1FY22 to Rs.18,712 crore for H1FY23. Combined ratio of the company stood at 112.08% as on March 31, 2022, and 113.92% as on September 30, 2022, owing to high loss ratios.

Going forward, CARE expects the company to continue rationalisation of treaties and improve underwriting practices which is expected to positively impact profitability. As per management, the company shall enter into more treaties with insurers having better underwriting standards and controlled cost by way of methods such as sliding scale commissions, etc. thus leading to some improvement in the overall combined ratio.

While CARE takes cognisance of reduction in underwriting losses during FY22 through conscious business measures, going forward, underwriting performance and its impact on solvency position shall be key monitorable.

**Liquidity: Strong**

GIC had cash & cash equivalents of Rs.22,408 crore (14.61% of assets) as of Sept 30, 2022, as against Rs.18,960 crore (12.99% of assets) as on Sept 30, 2021. Of the total investments portfolio of Rs.1,01,106 crore as on March 31, 2022, the company reported investments of Rs.40,944 crore in Government securities (market value) which are highly liquid in nature. As against these, company had a claim payment of Rs.36,626 crore during FY 2022, which is sufficiently covered by the cash and cash equivalents and G-secs.

**Analytical approach:** Standalone factoring ownership of GOI

**Applicable criteria**

[Policy on default recognition](#)

[Factoring Linkages Government Support](#)

[Financial Ratios - Insurance Sector](#)

[Issuer Rating](#)

[Rating Outlook and Credit Watch](#)

[Policy on Withdrawal of Ratings](#)

**About the company**

GIC Re was incorporated in November 1972, as a part of Government of India's (GoI) move to nationalize the general insurance business. It is majority owned by GoI and it is the dominant Indian reinsurer. Apart from the domestic operations, GIC Re has overseas presence through wholly owned subsidiary in Moscow (GIC Perestrakhovanie LLC) & South Africa (GIC Re South Africa Limited), London (GIC Re India, Corporate Member Limited) and branch offices in London, Dubai, Malaysia and Gift City, Gandhinagar. 'GIC Syndicate 1947' is also operational from 2018 in Lloyds of London. GIC Re also has presence in Bhutan through its joint venture, GIC Bhutan Re (GIC Re holds 26% stake). It also has 35% stake in Agriculture Insurance company of India Limited. The Corporation has also exposure in the share capital of Kenindia Assurance Company Ltd, Kenya; India International Insurance Pte Ltd, Singapore; Asian Reinsurance Corporation, Bangkok; East Africa Reinsurance Company Ltd., Kenya and Agriculture Insurance Company of India Limited for strategic reasons. Furthermore, GIC Re also has a stake in GIC Housing Finance Company Ltd. GIC Re is present in various segments of reinsurance, of which major segments are fire, health, motor, agriculture, marine, aviation and engineering.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Gross premium written	47,014	43,208	19,122
Earned premium	39,866	39,293	19,500
PAT	1,920	2,005	2,550
Total Assets**	1,34,643	1,44,887	1,53,385
Tangible net-worth**	22,471	24,476	28,000
Solvency Ratio	1.74	1.96	2.25

A: Audited; UA: Un audited; \*\*Net of DTA and intangible assets.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer Rating- Issuer Ratings		-	-	-	0.00	CARE AAA; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA; Stable	1)CARE AAA; Stable (26-Dec-22)	1)CARE AAA (Is); Stable (28-Dec-21)	1)CARE AAA (Is); Stable (30-Dec-20)	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA****Annexure-4: Complexity level of various instruments rated for this company**

Attribute ID	Sr. No.	Name of Instrument	Complexity Level
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**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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