General Insurance Corporation of India

December 28, 2021

Rating

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Issuer Rating*	-	**CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: 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 & 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) and GIC Re's strategic importance as the dominant Indian reinsurer, experienced management, diversified business profile, improving asset quality, comfortable liquidity position and comfortable capitalization with improving Solvency position.
The rating continues to factor in volatile profitability on account of continuing underwriting losses. CARE will continue to monitor the company's underwriting performance and solvency position closely.

Rating Sensitivities:

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 strong ownership. As on September 30, 2021, GOI holds 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 with around 74% market share in India's reinsurance industry. According to the regulations, GIC Re gets a certain cession of reinsurance business as obligatory business domestically and has first right of refusal for residual risks, which is advantageous for GIC Re. Nearly 30% of domestic premium is through obligatory cessions.

Experienced management

GIC Re is managed by broad-based Board of Directors, chaired by CMD (Chairman and Managing Director), Mr Devesh Srivastava. The Board of Directors comprises CMD, one nominee director by GOI and two independent directors. The operations of the company are conducted by competent management team, consisting of professionals having vast experience in insurance and reinsurance sector.

Well-diversified business profile in reinsurance

The primary objective of GIC Re is to maximize aggregate domestic retention and to use the large premium base of the domestic market to secure the best terms for business ceded overseas. GIC Re follows conservative underwriting policies. Post enactment of General Insurance Business Nationalisation Act, the management at GIC Re initiated significant measures to diversify its business by increasingly sourcing global business in addition to being dominant player in Indian reinsurance market. GIC Re started focusing on foreign inward business, facultative policies and non-proportional treaties in a major way in order to reduce its reliance on obligatory cessions.
GIC Re accepts almost all classes of non-life re-insurance business from the public and private sector general insurance companies. In addition to obligatory cessions, GIC Re also enters into treaty and facultative insurance arrangements with direct insurers. It has also started accepting life re-insurance since FY04 (refers to the period April 1 to March 31), although business under the same remains meagre (2.92% of earned premium) as it has no obligatory cessation requirement.
GIC Re also accepts reinsurance from foreign insurance companies. Around 36% of GIC's total Gross Premium Written (GPW) in FY21 was sourced from overseas business [FY20: 29%] with a view to reduce dependence on domestic business given the possible competition from entry of the foreign re-insurance players and increased retentions by the domestic insurance companies. GIC Re has target of 60:40 composition between domestic and foreign business underwriting in the medium term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

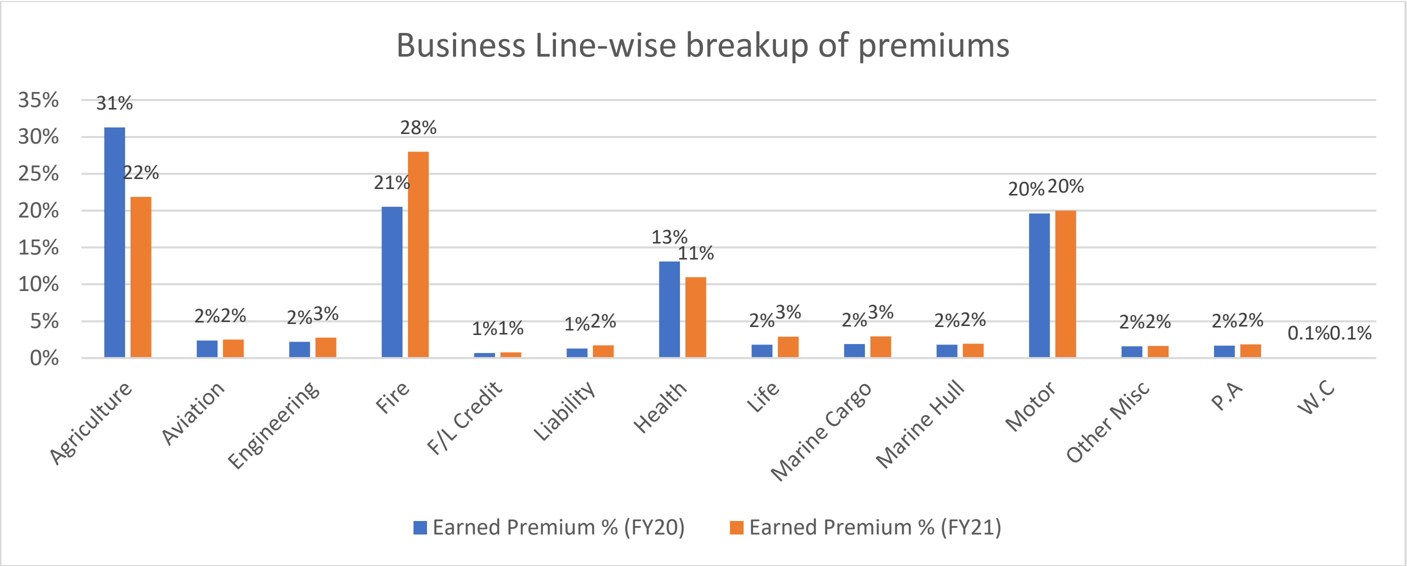

Figure 1. Share of each segment

P.A.: Personal Accident, W.C.: Workmens' compensation

Strong Liquidity profile and improving asset quality

As on September 30, 2021, GIC had cash & cash equivalents of Rs.18,960 crore (12.99% of assets) as against Rs.16,924 crore which is 13.42% of the total assets as on September 30, 2020. Also, the company has investments of Rs.38,608.47 crore (Market Value) in Government securities which are highly liquid in nature as on September 30, 2021.

The provisions of Insurance Act and guidelines issued by IRDAI determines the broad composition of GIC Re's investments. The company's stated policy is to focus on safety, return and liquidity, while making investment decision with safety being the topmost criteria. The company reported gross non-performing assets (GNPA) of 3.28% and Nil Net NPA (NNPA) as on September 30, 2021, as against GNPA of 4.03% and NNPA of 0.31% as on September 30, 2020, and GNPA of 3.58% and nil NNPA as on March 31, 2021. It has provided 100% against all the existing NPA's and there have been no further NPAs since April 2020.

Improvement in Solvency position and comfortable capital position

GIC Re has reported improved Solvency ratio of 1.88 as on September 30, 2021, and 1.74 as on March 31, 2021, as against 1.53 reported as on March 31, 2020. The company has pruned its loss-making portfolios resulting in a reduction in overall business, and has increased pricing in few segments to improve underwriting profitability metric. However, the company still makes loss at underwriting level, which is offset by investment income, which has increased during FY21 and H1FY22.

The solvency ratio does not take into account the unrealized gains in the fair value change account in GIC's balance sheet that was at Rs.27,191 crore as on March 31, 2021, which has increased to Rs.32,397 crore as on September 30, 2021 (March 31, 2020: Rs.14,896 crore). The unrealized gains have been supported by healthy improvement in Indian equity markets post severe correction in March 2020. Including unrealized gains, the solvency ratio would be in the range of 3.5 to 4.0 times.

The capital position is comfortable with tangible net-worth of Rs.22,692 crore (excluding the unrealized gains) as on September 30, 2021, and no external borrowing as on date.

Key Rating Weaknesses

Profitability volatile on account of underwriting losses

GIC Re reported profit after tax of Rs.1,920 crore on Gross Premium Written of Rs.47,014 crore for FY21 as against loss of Rs.359 crore on Gross Premium Written of Rs.51,030 crore in FY20, largely on account of reduction in claims from 97.5% of Net earned premium to 92.4% and increase in investment income. The corporation is pruning high risk portfolio in Agriculture and other sector which has also led to decrease in Gross premium underwritten from Rs.51,030 crore to Rs.47,014 crore. The underwriting losses have reduced from Rs.6,367 crore (including foreign exchange changes) during FY20 to Rs.5,488 crore during FY21 on account of reduction in losses in Agriculture, Fire and Motor and increase in losses in Health and Life segments. The investment income rose from Rs.7,125 crore during FY21 to Rs.8,821 crore, supported by increase in investment capital base and healthy capital markets. While the company has been taking steps to reduce the underwriting losses and improve the combined ratio, CARE expects the earnings to be supported by investment income for near term. Following graph provides the trend of company's combined ratio [(Incurred claims / Earned Premiums) + (Expenses / Net Premium written)], which shows some improvement in FY21.

Class of Business	Claims Ratio					Commission + Expense Ratio					Combined Ratio				
	FY18	FY19	FY20	FY21	H1FY22	FY18	FY19	FY20	FY21	H1FY22	FY18	FY19	FY20	FY21	H1FY22
Fire	87	103	90	85	92	25	27	30	25	24	112	130	119	134	117
Motor	73	85	87	79	74	17	15	18	20	33	91	100	106	116	108
Aviation	109	118	115	79	202	20	26	21	17	35	129	144	136	115	240
Engineering	51	62	95	77	85	0	26	22	27	23	51	87	117	60	109
W.C.	75	65	98	106	24	15	30	15	22	14	90	95	113	93	39
Liability	39	71	75	65	76	15	25	21	20	14	54	95	96	94	91
PA	66	74	73	71	113	30	24	28	24	29	96	98	101	116	142
Health	70	88	95	108	110	19	18	14	20	28	90	106	108	143	139
Agriculture	107	91	120	103	97	13	6	7	8	7	120	97	127	96	105
Other Misc.	113	15	-6	150	90	5	27	19	27	23	118	42	12	252	113
FL/Credit	258	86	83	63	107	27	28	25	28	24	285	114	109	76	131
Marine Cargo	46	63	63	89	86	15	24	17	20	25	61	87	79	100	112
Marine Hull	19	71	80	140	97	34	21	22	18	21	53	92	103	139	119
Life	109	122	100	115	311	1	3	2	1	1	110	125	102	91	313
TOTAL	87	90	97	92	98	17	16	17	19	22	104	106	114	112	122

During H1FY22, the company reported PAT of Rs.239 crore on Gross Premium Written of Rs.22,665 crore as against reported loss of Rs.327 crore on Gross Premium Written of Rs.26,533 crore. While the underwriting losses increased from Rs.3,931 crore to Rs.4,209 crore (impacted by Health), profitability was supported by improvement in investment income from Rs.3,910 crore to Rs.4,465 crore.

Analytical approach: Standalone factoring ownership of GOI

Liquidity Profile: Strong
As on September 30, 2021, GIC had cash & cash equivalents of Rs.18,960 crore (12.99% of assets) as against Rs.16,924 crore which is 13.42% of the total assets as on September 30, 2020. Also, the company has investments of Rs.38,608.47 crore (Market Value) in Government securities which are highly liquid in nature as on September 30, 2021. Furthermore, the company has nil borrowing as on date.

Applicable Criteria
Issuer Rating
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Insurance Sector
Factor Linkages in Ratings
Insurance Sector

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) and branch offices in London, Dubai and Malaysia. '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 (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Gross premium written	51,030	47,014	22,665
Earned Premium	44,145	39,866	21,764
PAT	(359)	1,920	239
Tangible Net Worth	21,902	22,452	22,692
Solvency Ratio (times)	1.53	1.74	1.88

A: Audited; UA: Unaudited; Tangible net-worth are net of DTA and Intangible assets

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Please refer Annexure 3

Annexure-1: Details of Instruments/Facilities

ISIN	Name of the Instrument	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
-	Issuer Rating	-	-	-	**CARE AAA (Is); Stable**

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	**Issuer Rating**	**LT**	**-**	**CARE AAA (IS); Stable**	**-**	**1)CARE AAA (Is); Stable (30-Dec-2020)**	**-**	**-**

Annexure-3: Complexity level of various instruments rated for this company

Sr. No	Name of Instruments	Complexity Level
1	Issuer Rating	Simple

Annexure 4: Bank Lender Details for this Company - NA

Note on complexity levels of the rated instrument: *CARE Ratings Ltd 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 for any clarifications.*

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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