

General Insurance Corporation of India
April 01, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Claims Paying Ability	-	CARE AAA (In); Stable [Triple A (Insurance); Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating continues to factor in General Insurance Corporation of India's (GIC Re) majority ownership by Government of India (GoI), GIC Re's strategic importance as the dominant Indian reinsurer, experienced management, comfortable liquidity position and moderate asset profile.

The ratings factored in rise in underwriting losses during the current financial year impacting overall profitability of the company and moderation in the solvency ratio. The company reported solvency ratio of 1.51 times as on December 31, 2019 against the minimum regulatory requirement of 1.50 times. CARE will continue to monitor the company's underwriting performance and solvency position closely.

Key Sensitivities*Negative Factors:*

- Reduction in sovereign ownership and support
- Deterioration in Solvency ratio below the regulatory requirement
- Inability to improve the underwriting performance and profitability going forward
- Significant loss of market share

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 parentage with GOI holding 85.78% shareholding as on December 31, 2019. The rating also factors in GIC Re's strategic importance as a dominant Indian reinsurer in the domestic market. GIC Re's market share in Indian Reinsurance stood at 76.5% during FY19 (FY18: 82.8%) based on Gross domestic premium.

Experienced management

GIC Re is managed by broad-based Board of Directors, chaired by CMD (Chairman and Managing Director) Mr. Devesh Srivastava (appointed w.e.f. December 20, 2019, replacing Ms. Alice Vaidyan). The Board of Directors comprises CMD, two Executive Directors, a nominee director by GOI and three independent directors. The operations of the company are conducted by competent management team, consisting of professionals having vast experience in insurance and reinsurance sector.

Comfortable liquidity position and moderate asset profile

The provisions of Insurance Act and guidelines issued by Insurance Regulatory and Development Authority of India (IRDAI) determine the broad composition of GIC Re's investments.

As on March 31, 2019, GIC had cash & cash equivalent of 11% of total assets as on March 31, 2019. Also, the company has investments of Rs.23,239 crore in Government securities which are highly liquid in nature. Substantial portion of GIC Re's investment is readily marketable thereby extending it ample liquidity support. The company reported Gross NPA of 4.39% and Net NPA of 0.84% as on December 31, 2019 as against Gross NPA of 3.01% and Net NPA of 1.12% as on March 31, 2019 (Gross NPA of 2.48% and Net NPA of 0.23% as on March 31, 2018).

Well diversified business profile in reinsurance

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

GIC Re accepts almost all classes of non-life re-insurance business from the public and private sector general insurance companies in India. In addition to obligatory cessions, GIC Re also enters into treaty and facultative reinsurance arrangements with direct insurers. It has also started accepting life re-insurance since FY04, although business under the same remains small as percentage of the overall underwriting book.

GIC Re also accepts reinsurance from foreign insurance companies. In FY19, around 30% of GIC Re's total Gross Premium Written (GPW) is sourced from overseas markets (FY18: 29%) with a view to reduce dependence on domestic business to further diversify the geographical concentration of its book and increased retentions by the domestic insurers. GIC Re's risk exposures is diversified and comprise treaty cessions through obligatory route as well as non-obligatory cessions, facultative covers for domestic as well as overseas insurers, excess of loss cover, market surplus treaties etc.

Key Rating Weakness

Deterioration in solvency position

GIC Re reported solvency ratio of 1.51x times as on December 31, 2020 (March 31, 2019: times) which declined to close to the minimum regulatory requirement of 1.50x times. The deterioration in solvency ratio is mainly on account of underwriting losses reported in 9MFY20 and increase in business which requires higher capital. During 9MFY20, the company was unable to offset the underwriting losses by investment income thus reducing the equity capital. While management expects the underwriting performance to improve going forward on account of increase in rates for major segments and plan to reduce the agriculture portfolio, which will lead to higher profitability and less requirement of regulatory capital and improvement in solvency position. The Solvency ratio will remain the key monitorable going forward.

Losses at underwriting level impacting the overall profitability

During FY19, the underwriting loss increased to Rs.2,211 crore from loss of Rs.1,497 reported in FY18. Overall loss ratio for the company deteriorated in FY19 to 89.55% as compared to 86.50 in FY18, primarily owing to drastic increase in claims in major business segments such as Fire (23% of total business), Motor (19%), Health (12%) which was partially supported by improvement in Agri segment (30%).

During 9MFY20, the underwriting further deteriorated with underwriting loss of Rs.5,936 crore and loss ratio of 99.10%, mainly on account of losses in all major segments viz. Fire, Health, Motor and Agriculture. While the management expects the underwriting to improve going forward, the underwriting losses have increased to a level where they are not being offset by investment income and the losses have started to hurt the overall profitability of GIC Re which has deteriorated from Profit of Rs.3,234 crore during FY18 to profit of Rs.2,224 crore in FY19 and loss of Rs.1,557 crore in 9MFY20.

The company has provided for majority of the stress on its book and has Net NPA worth of Rs.451.91 crore as on December 31, 2019.

Analytical approach: Standalone along with factoring in the ownership of Gol

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios - Financial Sector](#)

[Insurance Claims Paying Ability](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

Liquidity: Strong

Substantial portion of GIC Re's investment is readily marketable. Cash and equivalents comprise of 11% of GIC Re's total assets as on March 31, 2019. Also, the company has investments of Rs.23,239 crore in Government securities which are highly liquid in nature. Also as on March 31, 2019, the equity instruments (Book value of 10,142 crore & market value of Rs.40,533 crore) and other rated debt, money market instruments of Rs.12,955 crore and Rs.5,503 crore respectively are liquid to an extent.

Government securities and other approved securities continue to form the largest component of investments, accounting for 28% of the investment book.

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 offices viz, representative office in Moscow and branch offices in London, Dubai and Kuala Lumpur. GIC Re also has presence in Bhutan through its joint venture, GIC Bhutan Re (GIC Re holds 26% stake) and in South Africa through its wholly owned subsidiary, GIC Re South Africa 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. Further, 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)	FY18 (A)	FY19 (A)
Net Premium Earned	38,096	37,679
PAT	3,234	2,224
Tangible Net Worth	22,475	23,361
Total Policyholders Fund	52,822	58,500
Solvency Ratio (times)	1.72	2.06

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Claims Paying Ability	-	-	-	-	CARE AAA (In); 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Claims Paying Ability	LT	-	CARE AAA (In); Stable	1) CARE AAA(In); Stable (04-Apr-19)	1) CARE AAA(In); Stable (29-Mar-18)	1) CARE AAA(In); Stable (20-Apr-17)	1)CARE AAA(In) (20-Apr-16)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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