

## General Insurance Corporation of India

April 04, 2019

### Ratings

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

*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 with good solvency position, comfortable liquidity profile, moderation in asset quality and moderate profitability. Ownership by GOI, solvency position and profitability are key rating sensitivities.

### 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, 2018. The rating also factors in GIC Re's strategic importance as a dominant Indian reinsurer in the domestic market.

#### Experienced management

GIC Re is headed by Mrs. Alice G. Vaidyan who took charge as the Chairman cum Managing Director in January 2016. Ms. Vaidyan has a post graduate degree in English literature and has trained at Harvard Business School, Boston, USA. Ms. Vaidyan is a Fellow of the Insurance Institute of India. She has over 30 years of experience in the Indian insurance and reinsurance industry. She is assisted by a competent management team, consisting of professionals having significant experience in insurance and reinsurance sector.

#### Good solvency position

The solvency position continues to remain strong, with GIC Re reporting a solvency margin of 1.72 times as on March 31, 2018 compared to 2.40 times as on March 31, 2017. The moderation in solvency ratio during FY18 (refers to period from April 01 to March 31) was mainly on account of underwriting losses in GIC Re's Agriculture segment. Moreover, the solvency ratio does not take into account the unrealized gains in the fair value change account in GIC Re's balance sheet that stood at Rs.29,834 crore as on March 31, 2018 (Dec '18 : Rs.29,965 crore; Mar '17: Rs.30,036 crore). The solvency margin as on December 31, 2018 was 1.84 times.

#### Comfortable liquidity position and moderation in 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. Government securities and other approved securities continue to form the largest component of investments, accounting for 25% of the investment book. Share of investments in equity stood at around 14% of the investment book as on March 31, 2018. Substantial portion of GIC Re's investment is readily marketable thereby extending it ample liquidity support. Cash and equivalents comprise of 13% of GIC Re's total assets as on March 31, 2018. Further, GIC Re had total direct debt exposure to IL&FS and its group companies amounting to Rs.789 crore as on December 31, 2018 (constituting 1.01% of total investment portfolio as on December 31, 2018), for which the company provided for at 10% (i.e. Rs.78.89 crore). The company reported Gross NPA ratio of 8.05% (March 31, 2018: 2.48%) and Net NPA ratio of 5.84% (March 31, 2018: 0.57%).

#### Well diversified business profile in reinsurance

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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

GIC Re also accepts reinsurance from foreign insurance companies. In FY18, around 29% of GIC Re's total Gross Premium Written (GPW) is sourced from overseas markets (FY17 30%) 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

#### Losses at underwriting level, however, company reporting healthy profits on account of income from investments

Loss ratio for the company increased in FY18 compared to FY17, primarily owing to underwriting losses in the Agriculture and Fire segments in FY18. The underwriting results for the year were impacted due to major catastrophic events across the world and accordingly underwriting loss for FY18 increased to Rs.1,497 crore as against Rs.606 crore in the previous year. GIC reported muted growth of 3% y-o-y in its PAT during FY18. Although, the gross premium written grew by 24% along with 25% growth in the investment income, while net commission increased by 18%, the incurred claims increased by 52%, resulting in muted profitability. The company booked investment income to the tune of Rs.3,831 crore (P.Y.: Rs.3,053 crore) which enabled GIC Re to report a PAT of Rs.3,234 crore in FY18 [P.Y.: 3,128 crore]. As the company has seen increase in NPAs during 9MFY19, going forward the company may be required to increase provisioning on its non performing exposures which may impact its profitability.

**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 Profile

Substantial portion of GIC Re's investment is readily marketable. Cash and equivalents comprise of 13% of GIC Re's total assets as on March 31, 2018. Government securities and other approved securities continue to form the largest component of investments, accounting for 25% 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)	FY17 (A)	FY18 (A)
Net Premium Earned	26,714	38,096
PAT	3,128	3,234
Tangible Net Worth	18,446	22,475
Total Policyholders Fund	41,682	52,822
Solvency Ratio (times)	2.40	1.72

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's CPA rating does not apply to non-policy obligations of the insurer, such as debt, nor does it address the suitability of terms of any individual policy or contracts. The rating does not take into account any limitation that the insurer might face in settling its foreign claims due to exchange control/sovereign restrictions that might be placed on foreign currency payments by the Government of India. CARE's CPA rating is not a recommendation to buy, hold or terminate any insurance policy.

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Claims Paying Ability	LT	-	CARE AAA (In); Stable	1) CARE AAA(In); Stable (29-Mar-18)	1) CARE AAA(In); Stable (20-Apr-17)	1)CARE AAA(In) (20-Apr-16)	-

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CIN - L67190MH1993PLC071691