# General Insurance Corporation of India

**December 30, 2020**

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Issuer Rating* | - | **CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]** | **Assigned** |

**The rating is subject to the company maintaining solvency ratio above 1.5 times*
*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, diversified business profile and moderate asset profile.
The rating factors 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 1.63 times as on September 30, 2020 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:*

- Significant reduction in sovereign ownership and support
- Deterioration in Solvency ratio below the regulatory requirement
- Inability to improve the underwriting performance and profitability going forward

## 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. GIC was a wholly owned enterprise of GOI till FY17. GOI disinvested 14.22% stake in GIC Re through an IPO on 25th October, 2017. As on September 30, 2020 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 60% market share in India's reinsurance industry. According to the regulations, GIC Re gets a certain cession of reinsurance business as obligatory business domestically. It also gets higher preference beyond the obligatory limit for reinsurance from domestic insurers and GIC has right to accept the business or refuse it.

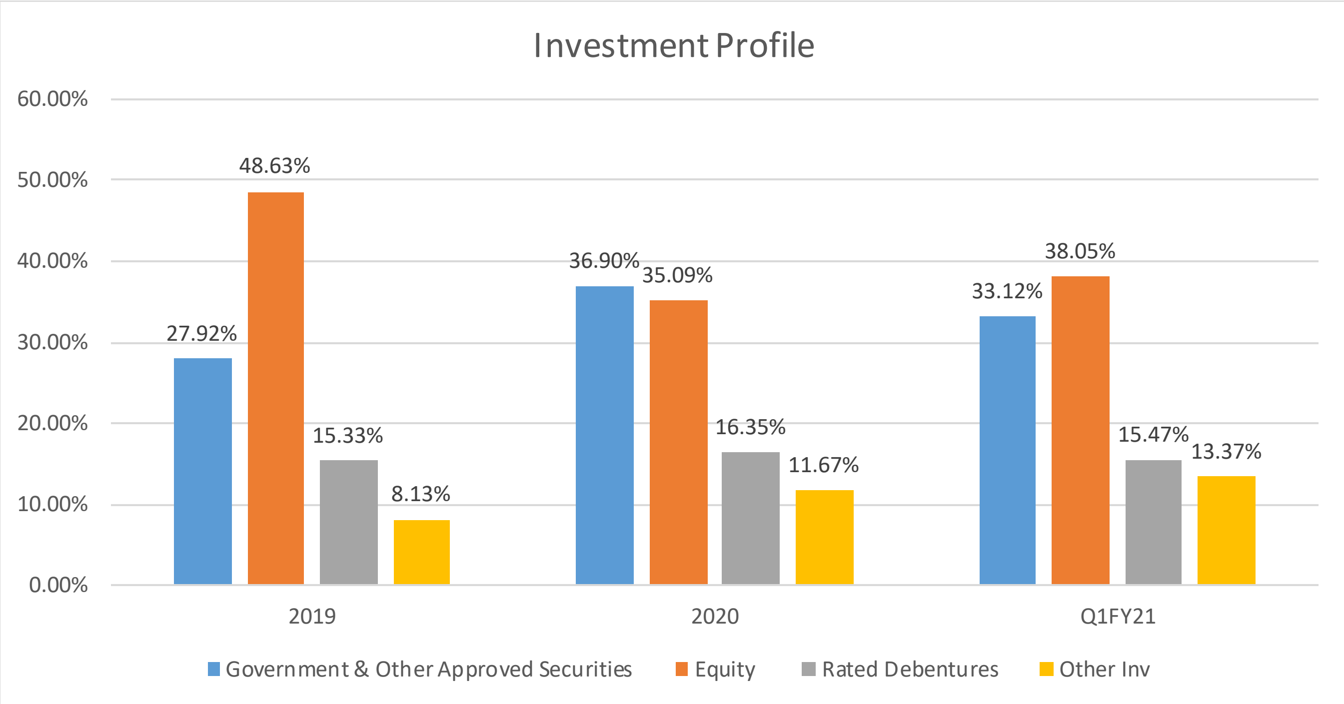
**Experienced management**

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, one Executive Director, a 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.

**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, 2020, GIC Re had cash & cash equivalent of Rs.15853 crore which is 13.64% of total assets as on March 31, 2020 as against 11% as on March 31, 2019. The company has investments of Rs.28,862.83 crore (Market Value) in Government securities as on March 31, 2020.
As on September 30, 2020, GIC had cash & cash equivalents of Rs.16,924 crore which is 13.42% of total assets.
GIC Re has sufficient & diversified Liquid Investment Portfolio, to take care of any Fund requirements in its operations. The long term goal is to increase investment in Sovereign Papers & highest rated secured Bonds. The maturity profile of investments is well spread in coming years to take care of liquidity as also asset-liability match.

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




*Note-The Figures Equity and Mutual funds are at market value. The rest of investments are at Book value.

GIC Re is incrementally investing mainly in G-Sec and has highest quality bonds. Also, the company has large unrealised gains in equity and mutual fund investments. The company had unrealised gains of Rs.14,896 crore as on March 31, 2020 and Rs.19,357 crore as on June 30, 2020.

The company reported Gross NPA of 4.03% and Net NPA of 0.31% as on September 30, 2020 as against Gross NPA of 4.42% and Net NPA of 0.63% as on March 31, 2020 (Gross NPA of 3.01% and Net NPA of 1.12% as on March 31, 2019).

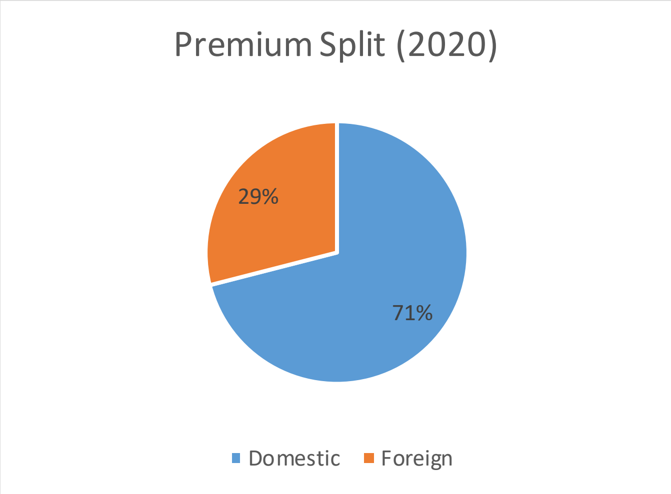
**Comfortable Capital Position**

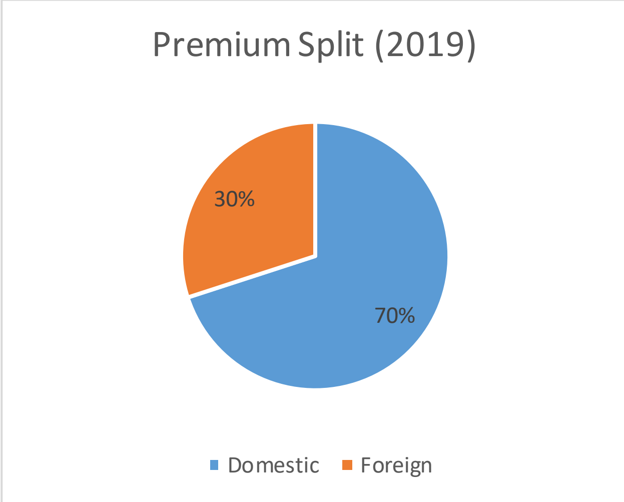
GIC Re has comfortable capital position and had a tangible net worth of Rs.21902 crore as on March 31, 2020. The net worth declined from Rs.23359 crore in FY19 on account of significant underwriting losses in FY20 but still the overall capital position remains comfortable. Also, GIC Re does not have any liabilities in the form of external borrowings which further strengthens the overall position of the company.

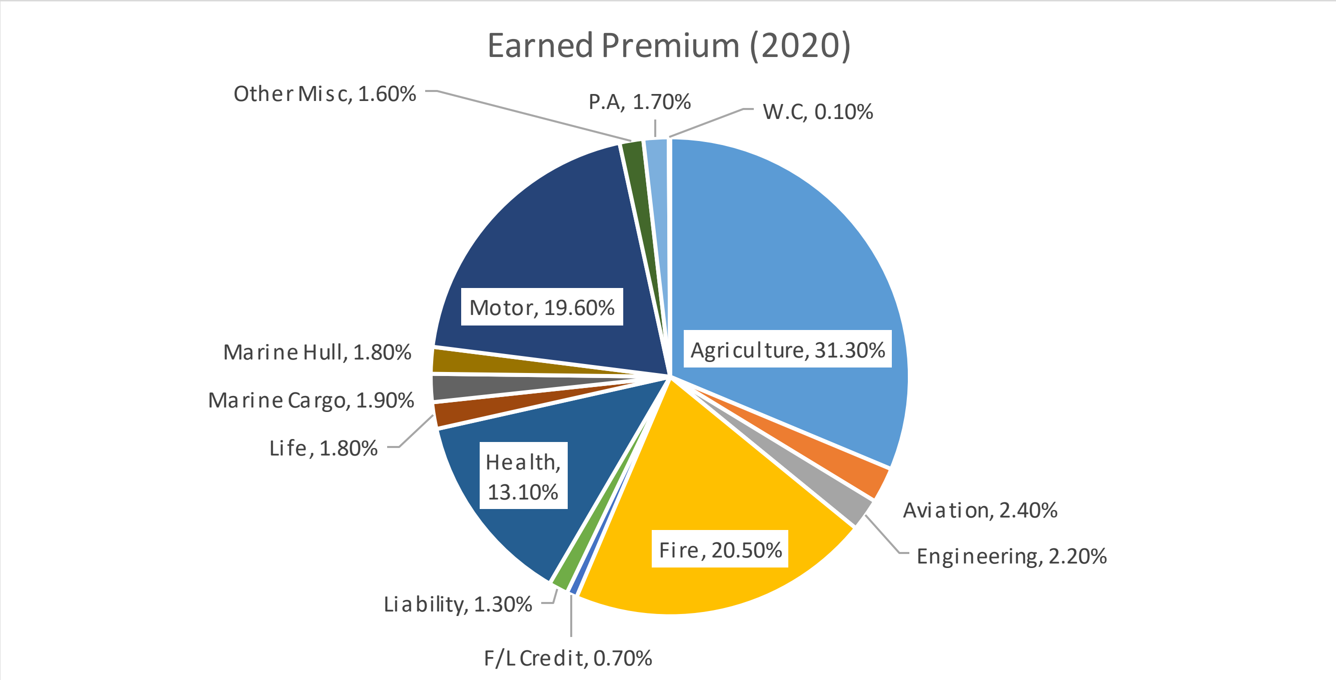
**Well diversified business profile in reinsurance**

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.

GIC Re also accepts reinsurance from foreign insurance and reinsurance companies. In FY20, around 29% of GIC Re's total Gross Premium Written (GPW) is sourced from overseas markets (FY19: 30%) with a view to reduce dependence on domestic business to further diversify the geographical concentration of its book. GIC Re's risk exposures are 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 has reported Solvency ratio of 1.52 as on June 30, 2020 and 1.53 as on March 31, 2020 which declined to close to the minimum regulatory requirement of 1.50x. The deterioration in solvency ratio is mainly on account of underwriting losses reported in Q1FY21 and Q3FY20 respectively along with the increase in business which requires higher capital.

Currently, as per the regulatory guidelines formula based solvency ratio is calculated based on the 3 years average of incurred claims & premium written and so the solvency ratio has declined due to weak performance of a couple of segments (Agriculture and Fire) in last year. The solvency ratio would remain a key monitor able going forward.

During Q1FY21, the company was unable to offset the underwriting losses by investment income thus reducing the shareholders' equity. During Q2FY21 the underwriting losses increased over Q1FY21, however higher investment income helped the company in generating PAT of Rs.230.05 crore, which along with business de growth resulted in, the solvency ratio improving to 1.63

**Losses at underwriting level impacting the overall profitability**

GIC Re reported a loss of Rs.359.10 crore on Gross Premium Written of Rs.51,030 crore for FY20 as against PAT of Rs.2,224 crore on Gross Premium Written of Rs.44,238 crore in FY19.

During Q2FY21, the company reported PAT of Rs.230.05 crore on Gross Premium Written of Rs.10,652 crore during Q2FY21, as against Q1FY21 where the company reported loss of Rs.557.47 crore on Gross Premium Written of Rs.15,882 crore. The profitability has been impacted on account of subdued underwriting performance as company reported underwriting losses of Rs.2,159 crore during Q2FY21 as against underwriting losses of Rs.1,771 crore for Q1FY21 and a loss of Rs.6,367 crore for

full year FY20 as against Rs.2,211 crore for FY19. The investment income in FY20 and Q1FY21 was Rs.7125 crore and Rs.1143 crore respectively but the investment income was not able to offset the losses. The investment income was higher than underwriting losses in Q2FY21 and so company booked a profit of Rs.230 crores.
The underwriting profitability was affected due to higher claims in Fire, Agriculture insurance due to major Catastrophic events in India and worldwide such as Cyclone Amphan, Cyclone Nisarga, floods, Cyclone Fani etc.
However, the company has increased rates in premiums of some of the businesses such as Fire Insurance, Agriculture insurance, etc. This would improve the profitability of the company in the coming quarters.

| Particulars | FY19 | FY20 | Q1FY21 | Q2FY21 |
|---|---|---|---|---|
| | 12m, A | 12m, A | 3m, A | 3m, A |
| Gross Premium | 44,238.00 | 51,030.13 | 15881.65 | 10651.50 |
| Net Premium | 38,996.00 | 46,655.41 | 14625.28 | 8846.07 |
| Earned Premium | 37,679.00 | 44,145.43 | 13661.83 | 9491.35 |
| Incurred Claims | 33,740.00 | 43,035.86 | 12868.73 | 9589.87 |
| Net Commission | 6,105.43 | 7,508.35 | 2559.87 | 1808.25 |
| Operating expenses related to insurance | 256.00 | 373.01 | 67.66 | 55.36 |
| Premium deficiency | 5.30 | 19.42 | 7.52 | 2.85 |
| **Underwriting Profit/Loss(-)** | **-2,211.55** | **-6,367.18** | **-1,771.35** | **-2,159.37** |
| Investment Income | 6,401.34 | 7,125.48 | 1142.83 | 2767.35 |
| Other Income less outgoing | -756.06 | -1,204.28 | -182.7 | -195.70 |
| **PBT** | **3,433.73** | **-445.98** | **-811.22** | **412.28** |
| **Tax** | 1,209.51 | -86.88 | -253.75 | 182.23 |
| **PAT** | **2,224.22** | **-359.10** | **-557.47** | **230.05** |

**Analytical approach:** Standalone along with factoring in the ownership of GoI

**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

**Liquidity: Strong**
GIC Re has strong liquidity position and substantial portion of GIC Re's investment is readily marketable. As on March 31, 2020, GIC had cash & cash equivalent of Rs.15,853 crore which is 13.64% of total assets as on March 31, 2020 as against 11% as on March 31, 2019. The company has investments of Rs.28,862.83 crore (Market Value) in Government securities as on March 31, 2020 which are highly liquid in nature.
As on September 30, 2020, GIC had cash & cash equivalents of Rs.16,924 crore which is 13.42% of total assets.

**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, wholly-owned subsidiary in Moscow (GIC Perestrakhovanie LLC) & South Africa (GIC Re South Africa Limited) and branch offices in London, Dubai and Kuala Lumpur. '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). 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) | FY19 (A) | FY20 (A) |
|---|---|---|
| Net Premium Earned | 37,679.00 | 44,145.43 |
| PAT | 2,224.22 | -359.10 |
| Tangible Net Worth | 23,358.50 | 21902.17 |
| Solvency Ratio (times) | 2.06 | 1.53 |

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 |
|---|---|---|---|---|---|
| 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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Issuer Rating | LT | - | CARE AAA (Is); Stable | - | - | - | - |

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

| *Sr. No.* | *Name of Instrument* | *Complexity Level* |
|---|---|---|
| 1 | Issuer Rating | Not Applicable |

***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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**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 offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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