ICRA

October 12, 2022

National Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	895.00	895.00	[ICRA]A+ (Stable); reaffirmed
Total	**895.00**	**895.00**	

**Instrument details are provided in Annexure I*

Rationale

ICRA has reaffirmed the long-term rating for National Insurance Company Limited's (NIC) subordinated debt programme. The outlook remains Stable. The rating and the outlook factor in the sovereign ownership with the entire equity owned by the Government of India (GoI). ICRA expects the company to continue to receive strong Government support in the form of capital infusions, given its systemic importance to the GoI. During FY2019-FY2022, the GoI infused Rs. 9,275 crore in NIC to support its operations, including Rs. 3,700 crore in FY2022. ICRA takes note of the regulatory forbearance specific to the solvency requirements allowed to the company by Insurance Regulatory and Development Authority of India (IRDAI) for the entire tenure of the instrument. Under this, NIC can service the debt instrument even if the solvency ratio is below the minimum regulatory requirement.

The rating factors in the company's weak solvency ratio (0.63 times as on June 30, 2022), which has remained below the regulatory requirement (1.50 times) from Q1 FY2019. NIC has applied to the regulator for the inclusion of 100% of the fair value change account (FVCA) on its investments for solvency purposes; post approval, the solvency will improve to 1.30 times as on March 31, 2022 and 1.13 times as on June 30, 2022. ICRA expects that NIC is likely to report a solvency ratio below the minimum regulatory requirement in FY2023 as well unless it receives timely and sufficient capital infusion from the GoI.

ICRA also notes that NIC's underwriting performance would remain weak due to high claims and management expenses, thereby eroding its weak capital base. The combined ratio deteriorated to 134% in FY2022 from 121% in FY2021 due to higher Covid claims, though it remained better compared to FY2018-FY2020. To improve the combined ratio, the company has adopted measures to reduce the controllable expenses, resulting in an improvement in the expense ratio. Further, the net claims ratio is expected to improve with premium hikes in the health segment and the loss prevention measures taken in the motor segment.

The weak solvency and underwriting performance have limited NIC's ability to underwrite business, resulting in a decline in its market share since FY2016. The company's ability to augment its capital base and grow its business profitably will be a key rating monitorable. The Stable outlook largely factors in the expectations of continued support from the GoI by way of capital infusions.

Key rating drivers and their description

Credit strengths

Sovereign ownership with entire equity owned by GoI – NIC is entirely owned by the GoI. ICRA expects the company to continue receiving strong Government support, given its systemic importance to the general insurance industry and its wide distribution network. The role of Government-owned insurers such as NIC becomes more important, given the significantly low insurance penetration in India. Further, to improve NIC's financial health and support the business, the GoI infused Rs. 9,275 crore in NIC during FY2020-FY2022 (Rs. 3,700 crore infused in FY2022).

Leading, albeit declining, market share; long operating history – NIC is among the largest general insurance companies in the country with a sound franchise value in eastern India and a long operating history. In FY2022, it had operations across 36 states and Union Territories, with five states, namely Maharashtra (19%), Delhi (12%), West Bengal (11%), Karnataka (10%), and Karnataka (7%), accounting for 60% of the gross direct premium income (GDPI). NIC's market share, in terms of the GDPI, declined gradually to 6.4% in FY2022 (7.6% in FY2021) from 13.1% in FY2016 with the weak solvency ratio leading to lower scope for growth.

NIC's portfolio concentration remains high in the health & personal accident and motor segments, which accounted for 46% and 35%, respectively, of the total GDPI in FY2022. However, it plans to gradually reduce the portfolio concentration further in the motor and group health portfolios and focus more on non-motor retail products.

Credit challenges

Reported solvency level below regulatory requirement – NIC has been reporting solvency below the regulatory requirement of 1.50 times since FY2019 due to continuous net losses on account of its weak underwriting performance. It reported a solvency of 0.63 times as on March 31, 2022 and June 30, 2022 even after a capital infusion of Rs. 3,700 crore in FY2022 by the GoI. The cumulative equity infusion during FY2019-FY2022 was Rs. 9,275 crore against a cumulative loss of Rs. 6,345 crore during this period. NIC has applied to the regulator for the inclusion of 100% of the FVCA on its investments for solvency purposes; post the approval, the solvency would improve to 1.30 times as on March 31, 2022 and 1.13 times as on June 30, 2022.

ICRA expects the company's solvency to remain below the regulatory threshold for FY2023. ICRA takes cognizance of the relatively high level of contingent liability (Rs. 1,557 crore) in relation to the net worth, which stood at 62% as of June 30, 2022. This was primarily due to the disputed income tax and services tax demand pending at various levels of courts of law. The crystallisation of such liabilities would further constrain the profitability and solvency.

Weak underwriting performance – NIC's underwriting performance is weak as seen in the high claims and management expenses. While its combined ratio deteriorated to 134% in FY2022 from 121% in FY2021 due to high Covid claims, it was better than the FY2018-FY2020 levels. NIC has adopted austerity measures to lower the management expenses by reducing the branch networks, staff strength and other administrative expenses. The weak underwriting performance has led to continuous net losses, thereby eroding NIC's capital base. The low solvency, coupled with the net losses, limits the company's ability to underwrite business. ICRA notes the measures taken by NIC to increase the premium rates for retail heath products and rationalise the motor-own damage (Motor-OD) premium through better risk selection. These factors would result in a relatively better combined ratio in the longer term.

Liquidity position: Adequate

NIC's liquid assets were estimated at Rs. 28,797 crore (sum of total investments less haircuts estimated by ICRA plus cash and bank balances plus net due from insurance companies) as on June 30, 2022. In FY2022, the company received net premium of Rs. 12,142 crore and its net claims paid stood at Rs. 12,443 crore. Debt repayment, which is serviceable through shareholders' funds, is Rs. 75 crore for FY2023 and 94% of the shareholders' funds (Rs. 2,493 crore) is deployed in liquid investments. ICRA does not foresee any liquidity risk in the near term for servicing the policyholders' claims or the debt obligations.

Rating sensitivities

Positive factors – The rating or outlook could be revised if the company is able to report a solvency level above the regulatory requirement without forbearance and improve its underwriting performance on a sustained basis.

Negative factors – ICRA could downgrade the rating on a dilution in NIC's strategic role and importance to the GoI or if there is a delay in capital infusions by the GoI.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Issuer Rating Methodology for General Insurance Companies Rating Approach - Hybrid Instruments Issued by Insurance Companies Rating Approach - Implicit Parent or Group Support
Parent/Group support	Parent/Group Company: Government of India (GoI) ICRA factors in the implied support from the GoI (100% owned by the sovereign). This has been ascertained by the continuous capital support received in the last five years
Consolidation/Standalone	Standalone

About the company

NIC is India's oldest general insurance company. It was incorporated in Kolkata, West Bengal on December 5, 1906 to fulfil the nationalist aspiration for Swaraj. After the passing of the General Insurance Business Nationalisation Act in 1972, it was merged along with 21 foreign and 11 Indian companies to form National Insurance Company Limited, one of the four subsidiaries of General Insurance Corporation of India, fully owned by the GoI. On August 7, 2002, NIC was delinked from its holding company, i.e. GIC, and became an independent insurance company. NIC has offices all over India and an office in Nepal. It has a strong presence with around 1,063 offices and over 50,000 agents spread across the nation.

Key financial indicators (audited)

	FY2021	FY2022	Q1 FY2022	Q1 FY2023
Gross direct premium	14,186	13,077	3,096	3,262
Total underwriting surplus/(shortfall)	(2,854)	(4,156)	(1,238)	(677)
Total investment + Trading income	2,724	2,641	614	613
PAT	(562)	(1,675)	(610)	(303)
Net worth (excluding fair value change)	590	2,766	18	2,493
Fair value change account	1,789	2,692	2,513	1,917
Total technical reserves	25,811	25,955	26,916	26,190
Total investment portfolio	29,280	33,391	29,914	32,010
Total assets	37,830	40,493	38,669	39,561
Combined ratio	121.1%	134.2%	144.6%	124.3%
Reported solvency ratio (times)	0.62	0.63	0.05	0.63

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Oct 12, 2022	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2022 Oct 14, 2021	Date & Rating in FY2021 Oct-19-2020	Date & Rating in FY2020 Mar-12-2020	Date & Rating in FY2020 May-15-2019
1	**Subordinated debt programme**	Long term	895.00	895.00	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]AA- (Negative)**	**[ICRA]AA (Negative)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE168X08014	**Subordinated debt**	**Mar-27-2017**	**8.35% p.a.**	**Mar-27-2027**	**895.0**	**[ICRA]A+ (Stable)**

Source: Company

** The bond had a first call option after five years of issuance, which was not exercised by the company*

Annexure II: List of entities for combined analysis with consolidated analysis

Company Name	Ownership	Consolidation
Not Applicable	Not Applicable	Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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