December 12, 2024

SBI General 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	700.00	700.00	[ICRA]AAA (Stable); reaffirmed
Total	**700.00**	**700.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in the strong parentage of SBI General Insurance Company Limited (SBI General) with State Bank of India {SBI; rated [ICRA]AAA (Stable)}[1] holding a 69.00% equity stake as on September 30, 2024. The rating considers the shared brand name, the strategic importance of SBI General to SBI, the demonstrated capital support since inception and the representation on SBI General's board of directors, which strengthens ICRA's expectation of adequate and timely capital support if required. The rating derives comfort from SBI General's comfortable capitalisation with a reported solvency of 2.26 times as on September 30, 2024 (compared to the required regulatory level of 1.50 times), supported by the capital infusion by the shareholders in Q1 FY2024 and further aided by the Rs. 700-crore sub-debt raised in Q4 FY2024. The rating also reflects SBI General's position in the general insurance space as the seventh largest private insurance company in India, with a market share of 4.4%[2] in H1 FY2025, and its diversified distribution network.

SBI General's net profitability has declined since FY2022 due to underwriting losses (average combined ratio of 109.6% during FY2022-FY2024), given the ramp-up in the retail health and motor segments, which entail higher upfront costs in distribution as well as reserving for future claims, while the benefit of the improved scale will emerge in later years. This has resulted in a moderate return on equity (RoE) with an average RoE of 5.5% during FY2022-FY2024. Going forward, the company's ability to improve its underwriting performance and scale up the retail health and motor segments would be critical for enhancing its profitability profile. SBI General has a high share in the crop segment, though on a declining trend (24.2% of gross direct premium income (GDPI) in H1 FY2025), which is driven by tenders and may lead to volatility in the top line.

The Stable outlook factors in the expectation that the company will continue to receive support from SBI, if required, and will maintain the solvency level above the negative triggers.

Key rating drivers and their description

Credit strengths

Strong parentage with capital, strategic, and operational support – SBI is the largest shareholder and promoter of SBI General with a 69.00% stake as on September 30, 2024, followed by Napean Opportunities LLP (15.78%). It is strategically important to its promoter, with the same underlined by the shared brand name, track record of equity infusions and board-level oversight. SBI is the largest public sector bank in India with a network of 22,580 branches in June 2024, spread across the country. This enables SBI General to leverage the bancassurance channel to source business at a relatively lower cost. Further,

[1] *For Basel III Tier II bonds*

[2] *Industry GDPI excludes specialised insurers, i.e. Agriculture Insurance Co of India Ltd. and ECGC Ltd.*

it has an exclusive partnership with SBI, which contributed 27.6% to its overall GDPI (excluding crop) in H1FY2025 (29.8% in FY2024).

SBI General's board has nine directors. It has representation from SBI with Chairman of SBI being the Chairman of SBI General; in addition, the Managing Director (MD) & Chief Executive Officer (CEO) is on deputation from SBI. SBI General thus benefits from the strong brand name of its promoter, operational support via the expansive nationwide network, vast customer base and robust brand equity. Going forward, the continued support of the promoter would be a key driver of the credit profile.

Comfortable capitalisation supported by equity infusions – SBI General reported a solvency of 2.26 times (core solvency, excluding sub-debt, of 1.95 times) as on September 30, 2024, compared to the minimum regulatory requirement of 1.50 times, supported by the equity capital infusion of Rs. 689 crore by the shareholders in April 2023 and the raising of Rs. 700-crore sub-debt in February 2024. The capitalisation has also been supported by healthy internal accruals in the past (average RoE of 20.8% during FY2018-FY2021) and lower risk retention. However, the profitability was impacted by higher retentions and growth in the retail segments, which usually exerts pressure on profitability during the initial years due to investments in the distribution network and upfront reserving, particularly for long-tail business lines. Supported by healthy capitalisation, SBI General has also increased retention across segments such as health and motor in the current fiscal, which is likely to lead to higher capital consumption. The company, however, has headroom for raising additional sub-debt of ~Rs. 510 crore, which could support its solvency levels despite higher risk retention. ICRA also expects capital support from the parent to meet the growth plans while maintaining the solvency above ICRA's negative threshold of 1.70 times.

Distribution network supporting growth – SBI General is the seventh largest private general insurance company with a market share of 4.4% in H1 FY2025 (4.5% in FY2024) in terms of GDPI. While its market share in the retail segments (retail health and motor) was lower at 3.3% in H1 FY2025 (3.1% in FY2024), the same has been on an improving trajectory. The health & personal accident (PA) segment is the largest contributor to the GDPI with its share increasing consistently to 31.9% in FY2024 from 23.2% in FY2020 (27.6% in H1 FY2025), though it was lower than the industry level of ~42% in FY2024. However, group health accounts for a major share of the health business, a large portion of which is sourced from SBI's distribution channels. The company has also shifted its focus towards increasing the share of the motor segment, which accounted for 29.8% of the GDPI in H1 FY2025 and is comparable with the industry level of ~30%. Further, it has a strong presence in the crop and fire segments, which contributed 24.2% and 13.9%, respectively, to the GDPI in H1 FY2025.

The business growth is supported by SBI General's diversified distribution network with brokers, direct business, bancassurance and agents contributing 39.7%, 29.5%, 23.4% and 6.7%, respectively, to the total GDPI in H1 FY2025. Excluding the crop business, which is sourced directly, the share of bancassurance (largely SBI and its regional banks) stood at 30.9% of the GDPI in H1 FY2025. The company intends to maintain a balanced product and distribution mix.

Credit challenges

Moderate profitability – SBI General's profitability has remained moderate with an average RoE of 5.5% during FY2022-FY2024 (18.1% in H1 FY2025)[3] and an average combined ratio of 109.6% in FY2022-FY2024 (110.8% in H1 FY2025). The moderate underwriting performance has largely been in the key segments for the company such as health and motor. For health, the combined ratio remained elevated at 104.7% in FY2024 while it stood at 126.4% for the motor segment. Given the relatively lower market share in the motor segment and the focus on increasing its presence, the profitability of this segment as well as the company as a whole could remain a drag on profitability, given the higher upfront reserving for Motor-Third party (Motor-TP), whereas the benefits of the income on investments will emerge over future periods. SBI General has been looking at improving its underwriting for the motor segment by focussing on favourable products and geographies. The segment is likely to become profitable as the scale improves and the company is able to build a sizeable investment book. SBI General's overall profitability is currently supported by the businesses sourced through its parent bank, SBI, such as PA and long-term home insurance (LTH), which remain profitable.

[3] *RoE on annualised basis*

However, the increasing presence in the Motor-TP segment (15.1% of the GDPI in FY2024) exposes the company to reserving risks. The long-tail nature of the Motor-TP segment, given the legal process involved for claims settlement, could result in uncertainty regarding the level of future claims in relation to the past reserves made for this segment. SBI General's loss-reserving triangle, which involves actuarial estimates, indicates that it has maintained adequate reserves in the past and shows the favourable claims experience in this segment vis-à-vis reserving during the last few years. However, the eventual outcome for the risk-in-force may be known with considerable lag, which could impact the future profitability and solvency. Further, the profitability of this segment could be impacted as the pricing of Motor-TP rates is regulated.

Dependence on tender-driven crop business may lead to volatility in top line, although share is declining – SBI General has underwritten a high share of the crop business compared to peers. The crop segment had a share of 21.0% in the GDPI in FY2024 (25.7% in FY2023). It is driven by tenders and remains lumpy and volatile in nature. With most of the tenders coming with an 80-110 scheme[4], the extent of losses is likely to be capped. However, in a year of natural calamities, the business can lead to losses and volatility in the overall earnings, particularly from tenders that do not come under the purview of the 80-110 scheme. Other issues stemming from a high share in the crop business are potential delays in payments from state governments and fluctuations in reserves. Further, competition is expected to increase in these segments in the near term to manage the expenses of management (EoM) regulations implemented by the regulator. The company remains selective in these tender-driven segments; however, this could result in a relatively higher net loss ratio if not priced suitably. SBI General's ability to consistently underwrite profitable business in the crop segment would have a bearing on its overall revenues and profitability.

Liquidity position: Strong

SBI General's net premium was Rs. 8,499 crore in FY2024 in relation to the maximum net claims paid of Rs. 4,569 crore in the last few years, reflecting strong ability to pay claims from the operating cash flow. In addition, its operating cash flows have remained positive, and it had investments in Central/state government securities of Rs. 6,523 crore, accounting for 32.9% of the total investments as on September 30, 2024, supporting the liquidity further to meet any unexpected rise in the claims of policyholders. The company's shareholders' investments of Rs. 5,003 crore remained strong in relation to the Rs. 700-crore sub-debt outstanding as on September 30, 2024.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Deterioration in SBI's credit profile or a decline in the strategic importance of SBI General to SBI or in the expectation of support from the promoter could impact the rating. Additionally, a decline in the company's solvency ratio to less than 1.70 times on a sustained basis would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – General Insurance
Parent/Group support	Parent/Investor: SBI The rating factors in the high likelihood of financial support from SBI Bank to SBI General, driven by reputational and strategic considerations
Consolidation/Standalone	Standalone

[4] *Under the 80-110 plan, the insurer's potential losses are restricted to 110% of the gross premium with the state government bearing the cost of any claims above 110% of the premium. If the compensation is less than the premium collected, the insurer will refund the premium surplus (gross premium minus claims) exceeding 20% of the gross premium to the state government*

About the company

SBI General Insurance Company Limited was incorporated on February 24, 2009, as a public limited company under the Indian Companies Act, 1956. It was originally a joint venture (JV) between State Bank of India (SBI) and IAG International Pty Limited, a subsidiary of Insurance Australia Group Limited. SBI divested 4% of its 74% stake in the company, in mid-2018, to PI Opportunities Fund – I (2.35%) and Axis New Opportunities- AIF-I (1.65%). Further, IAG made a complete exit in March 2020, divesting its entire stake (26%) to Napean Opportunities LLP (16.01%) and Honey Wheat Investments Ltd (9.99%). Axis New Opportunities- AIF-I sold 1.27% of its overall stake (1.65%) to IIFL Special Opportunities Fund - Series 9 (1.04%) and IIFL India Private Equity Fund – Series 1A (0.23%) during FY2022-FY2023.

As on September 30, 2024, the promoters' shareholding in SBI General comprised SBI at 69.00% and Napean Opportunities LLP at 15.78%.

SBI General offers a comprehensive and well-diversified range of products, including health, motor, crop/weather, fire, personal accident, marine, engineering and liability insurance, through multiple distribution channels. It is the seventh largest private general insurer with a market share of 4.4% in H1 FY2025.

Key financial indicators

SBI General Insurance Company Limited	FY2023	FY2024	H1 FY2025
Gross direct premium	10,828	12,554	6,586
PAT	184	240	414
Net worth*	3,060	4,144	4,577
Total investments	13,095	17,940	19,833
Combined ratio	106.7%	108.2%	110.8%
Return on equity^	6.0%	5.8%	18.1%@
Solvency ratio (times)	1.72	2.25	2.26

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Net worth excluding fair value change account (FVCA)*
^ PAT/Net worth excluding FVCA; @ Annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current (FY2025)		Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Dec 12, 2024	Date	Rating	Date	Rating	Date	Rating
Subordinated debt programme	Long term	700.00	[ICRA]AAA (Stable)	28-Dec-2023	[ICRA]AAA (Stable)	-	-	-	-

Source: Company

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE01MM08012	**Subordinated debt programme**	Feb 21, 2024	8.35%	Feb 21, 2034*	700.0	[ICRA]AAA (Stable)

*Source: Company, ICRA Research; * The company has a call option, which is exercisable five years from the date of allotment and at the end of every year thereafter on coupon payment dates*

The rating factors in the key features of the subordinated debt instrument:

- Servicing of interest is contingent on the company maintaining a solvency ratio above the level stipulated by the regulator[5];
- In case the solvency ratio is below the level stipulated by the regulator or the interest payouts lead to a decline in the solvency ratio below the regulatory requirement, prior approval of the regulator would be required to service the debt;
- If the interest payouts lead to a net loss or an increase in the net loss, prior approval of the regulator would be required to service the debt.

Annexure II: List of entities considered for consolidated analysis

Not applicable

[5] *As per IRDAI regulations, insurers are required to maintain a minimum solvency ratio of 150%*

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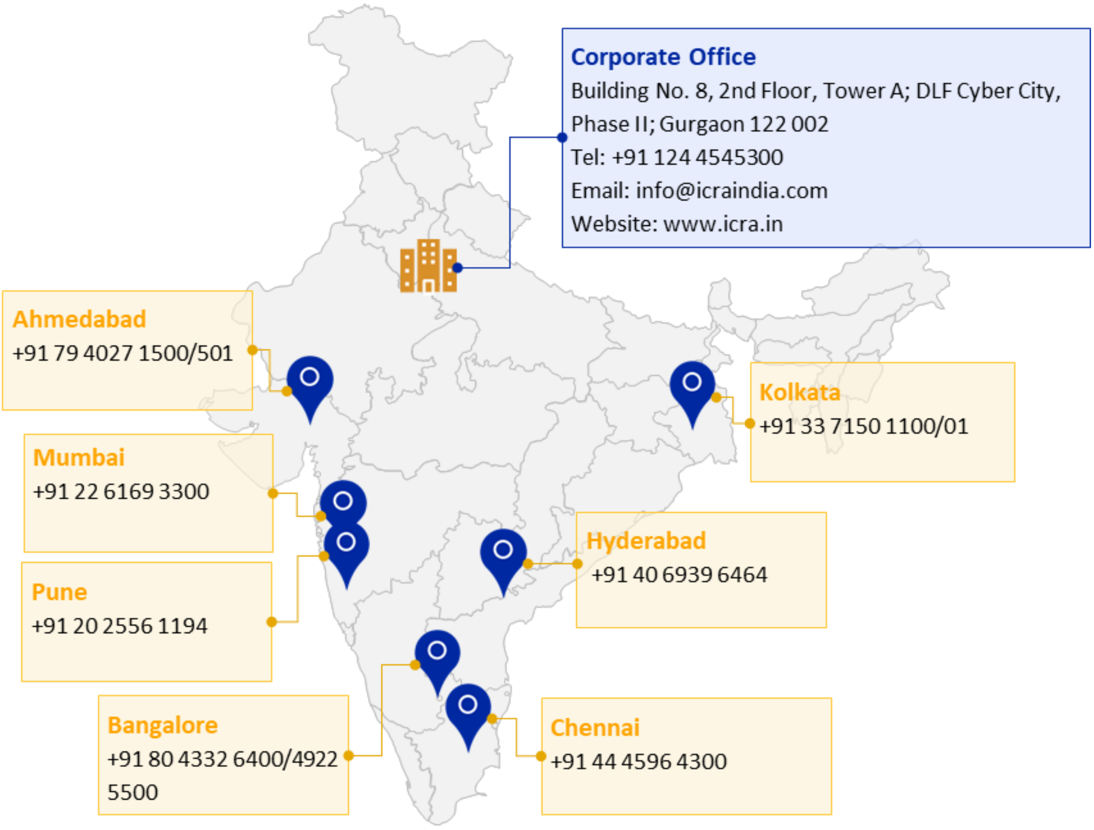

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