May 15, 2023

Tata AIG General Insurance Company Limited: Rating reaffirmed/assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt Programme	185.00	185.00	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt Programme	-	545.00	[ICRA]AAA (Stable); assigned
Total	**185.00**	**730.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating considers Tata AIG General Insurance Company Limited's (Tata AIG) parentage with Tata Sons Private Limited (Tata Sons; rated [ICRA]AAA (Stable)/[ICRA]A1+) holding a majority stake (74%) and American International Group, Inc. (AIG; rated Baa2/Stable by Moody's Investors Service) holding 26%. The presence of a shared brand name strengthens ICRA's belief that Tata AIG will receive capital support from its parents, as and when required. Tata AIG has a track record of capital infusion from the promoters (Rs. 960 crore of equity infused by the sponsors during FY2016-FY2020).

Supported by the investment in its distribution franchise, Tata AIG's gross direct premium income (GDPI) increased at a higher rate than the industry, leading to an improved market share[1] of 5.5% in FY2023 vis-à-vis 3.8% in FY2018. Tata AIG has further strengthened its bancassurance tie-ups, which would aid its future growth plans in the retail segment. Given the scale-up in the business franchise, operating expenses and hence the combined ratio are elevated, despite the loss ratios being comparable to peers. The overall net profitability remains healthy, supported by the higher investment leverage driven by the relatively higher retention levels and the presence of motor-third party (TP) policies. This, coupled with capital infusions from the promoter, has supported the solvency profile amid higher growth. While the company has a diversified product portfolio, the share of the long-tail Motor-TP business is high, which exposes the future profitability and solvency to reserving risks.

The Stable outlook factors in Tata AIG's diversified product profile, prudent investment book and the expectation that it will continue receiving support from the promoter and will maintain its solvency level above the negative rating trigger.

Key rating drivers and their description

Credit strengths

Strong parentage – Tata Sons is the principal holding company for the Tata Group and holds a stake in Tata Group companies operating in numerous sectors including information technology, power, steel, chemical, vehicle manufacturing, financial services, consumer goods, and jewellery, among others. AIG is a leading global insurance organisation serving customers in more than 70 countries and jurisdictions. The rating factors in Tata AIG's strong parentage and its importance to its sponsors, with the same underscored by the presence of a shared brand name, board-level supervision and track record of equity infusions. Going forward, the importance of the company to its parents and the capital and operational support to aid business growth would be key rating drivers.

[1] Excluding Agriculture Insurance Company of India (AIC) and Export Credit Guarantee Corporation of India (ECGC)

Comfortable profitability and solvency profile – Tata AIG's capitalisation profile remains comfortable with a solvency ratio of 1.94 times as on March 31, 2023, compared to the regulatory requirement of 1.50 times. The solvency profile is supported by the company's healthy internal accruals with an average return on equity of 12.3% during FY2020-FY2023.

The company's underwriting performance was moderate in FY2023 with a combined ratio of 109.5% (107.9% in FY2022). While the net loss ratio was largely comparable to peers (73.6% in FY2023), management expenses were high on account of the expansion in the distribution network, which led to a higher growth rate vis-à-vis the industry. The underwriting performance was, however, offset by investment income. With relatively higher retention levels and the presence of Motor-TP policies, the investment leverage[2] (4.7 times as on March 31, 2023) and the associated investment income remained high, leading to healthy internal accruals.

Further, the solvency profile was aided by timely capital infusions from the sponsors with the last round of capital infusion of Rs. 200 crore in FY2020. Also, the company plans to raise additional subordinated debt of Rs. 545 crore, which would add ~27 basis points (bps), on a proforma basis, to the reported solvency as on March 31, 2023. The additional sub-debt, along with healthy profitability, is likely to support the growth in the medium term.

Expansion in distribution channels and partnerships supporting the growth – Tata AIG's growth was higher than the industry growth in the last couple of years, driven by the expansion in its distribution network. The growth was largely led by the motor, commercial line and health segments. Tata AIG's product portfolio is relatively well diversified with the motor insurance segment being the largest (47.9% of the total GDPI in 9M FY2023). With higher growth in the health and personal accident segment, post the Covid-19 pandemic, due to growing awareness, its share in GDPI increased to 21.7% in 9M FY2023 from 13.3% in FY2018. Also, the company's investment in the agency channel and increased focus on the retail health segment largely led to the higher growth. Tata AIG has a reasonable presence in the commercial business segment due to the expertise derived from its parent, AIG.

The company's distribution mix is largely dominated by brokers with a 43% share in the total distribution in 9M FY2023. Over the years, Tata AIG has increased its sourcing from banks, which stood at 11% in 9M FY2023 compared to 8% in FY2018. It is widening its distribution network by partnering with automobile original equipment manufacturers (OEMs) and expanding its presence in tier 2 and tier 3 cities. All these efforts are expected to help Tata AIG maintain its pace of growth in its retail portfolio by expanding into new territories and diversifying its premium mix further.

ICRA notes that the company does not underwrite the tender-driven government health and crop segments. However, it is revaluating the underwriting of the crop business in FY2024 due to a change in market dynamics such as a change in the product structure (80:110 scheme) and improvement in data and technology for loss assessment, among others.

Credit challenges

High share of long-tail business exposes the company to reserving risks – The major risk faced by an insurance company is the risk of underwriting at an adequate premium pricing. The uncertainty regarding the extent of claims is relatively higher in the Motor-TP segment, which is long-tail in nature and accounted for 25-30% of Tata AIG's total GDPI in the last few years. While the company's loss reserving for the long-tail business has been prudent in the past, the adequacy of the existing provisions for future claims in this business remains a key risk given its high share in the total GDPI. This could adversely impact future profitability and capital if the claims exceed the existing provisions.

Liquidity position: Strong

The company's net premium was Rs. 7,514 crore in FY2022 in relation to the maximum net claims paid of Rs. 3,233 crore in the last few years. For 9M FY2023, the net premium stood at Rs. 6,071 crore against net claims paid of Rs. 2,828 crore. Tata AIG had investments in Central/state government securities of Rs. 7,547 crore, accounting for 33% of the total investments as

[2] *Investment leverage = (Total investment – Subordinated debt)/Net worth*

on December 31, 2022, further supporting the liquidity to meet the claims of policyholders. The company's shareholders' investment of Rs. 3,998 crore remains strong in relation to Rs. 185-crore sub-debt outstanding as on December 31, 2022.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating or outlook could be revised if there is a downward revision in the rating of Tata Sons or a decline in the strategic importance of Tata AIG to Tata Sons or in the expectation of support from the promoter. In addition, deterioration in the underwriting performance weakening the overall profitability and a decline in the company's solvency ratio to less than 1.7 times on a sustained basis could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology - General Insurance Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent: Tata Sons Private Limited ICRA factors in the implied support of Tata Sons and takes comfort from the shared brand name and strong representation on the board.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

Tata AIG General Insurance Company Limited (Tata AIG) is a joint venture between the Tata Group and American International Group (AIG). Tata AIG commenced operations in India on March 31, 2001. It offers a range of general insurance covers for businesses and individuals and has a comprehensive range of general insurance products with a presence in 213 locations across India.

Key financial indicators (audited)

Tata AIG	FY2021	FY2022	FY2023
Gross direct premium	8,042	10,025	13,176*
Total underwriting surplus / (shortfall)	(500)	(811)	(926)
Total investment + Trading income	1,142	1,466	1,701
PAT	448	454	553
Total net worth	3,477	4,485	4,919
Total technical reserves	10,468	13,091	15,444
Total investments	16,177	19,881	23,493
Total assets	17,822	22,008	25,739
Return on equity (%)	12.9%	10.1%	11.2%
Combined ratio (%)	103.1%	107.9%	109.5%
Regulatory solvency ratio (times)	2.22	1.97	1.94

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * GI Council; NA – Not available*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 15, 2023	Aug 30, 2022	Aug 31, 2021	Sep 02, 2020
1	**Subordinated Debt Programme**	Long term	185.00	185.00	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AA+ (Positive)**	**[ICRA]AA+ (Stable)**
2	**Subordinated Debt Programme**	Long term	0.00	-	-	**[ICRA]AAA (Stable); withdrawn**	**[ICRA]AA+ (Positive)**	**[ICRA]AA+ (Stable)**
3	**Subordinated Debt Programme**	Long term	545.00	-	**[ICRA]AAA (Stable)**	-	-	-
4	**Issuer Rating**	Long term	-	-	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated Debt Programme	Moderately Complex
Issuer Rating	Not Applicable

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE067X08026	**Subordinated Debt Programme**	Dec 19, 2019	8.85%	Dec 19, 2029*	185.00	[ICRA]AAA (Stable)
Not yet placed	**Subordinated Debt Programme**	-	-	-	545.00	[ICRA]AAA (Stable)
NA	**Issuer Rating**	NA	NA	NA	NA	[ICRA]AAA (Stable)

*Source: Company; *Call option exercisable at the end of five years from the date of allotment*

Key features of rated debt instrument

The rating also factors in the key features of the instrument, in line with the applicable guidelines for subordinated debt:

» Servicing of interest is contingent on the company maintaining a solvency ratio above the levels stipulated by the regulator[3]

» 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

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

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