August 14, 2023(Revised)

The Oriental Insurance Company Ltd.: Rating downgraded to [ICRA]AA from [ICRA]AA+; outlook remains Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	750.00	750.00	[ICRA]AA (Negative); downgraded from [ICRA]AA+ (Negative)
Issuer Rating	-	-	[ICRA]AA (Negative); downgraded from [ICRA]AA+ (Negative)
Total	**750.00**	**750.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating downgrade reflects the further deterioration in The Oriental Insurance Company Ltd.'s (OICL) solvency profile due to its weak underwriting performance and the absence of capital infusions by the Government of India (GoI) in FY2023. The underwriting performance was affected by the increase in management expenses on account of wage revision and payment of associated arrears in FY2023. Moreover, the continued net losses of Rs. 4,968 crore and Rs. 3,115 crore in FY2023 and FY2022, respectively, resulted in a negative net worth of Rs. 4,147 crore as on March 31, 2023.

The company's solvency is expected to remain weak unless the GoI makes a sizeable equity infusion. OICL has provided Rs. 2,425 crore for the payment of arrears for the period of August 01, 2017, to July 31, 2022. The solvency ratio declined sharply to -0.96 times (excluding fair value change account (FVCA)[1]) as on March 31, 2023, from 0.15 times in FY2022. The company has applied to the regulator for the inclusion of 100% FVCA for solvency calculation for FY2023, though approval is yet to be received. Even after considering this, the solvency stood at 0.56 times as on March 31, 2023, lower than the regulatory requirement of 1.50 times. The solvency ratio was previously (FY2019-FY2021) supported by the regulatory dispensation allowing the inclusion of FVCA while computing the same.

The rating factors in OICL's position as one of the leading players in the domestic general insurance industry and the sovereign ownership (GoI holds 100%) with demonstrated capital support in the past and the expectation of continued GoI support in future. Although the GoI infused Rs. 3,170 crore and Rs. 1,200 crore in FY2021 and FY2022, respectively, further capital would need to be infused again in FY2024 to help the company meet the regulatory solvency ratio.

OICL's statutory auditors have drawn attention to its ability to continue as a going concern, given the negative net worth and the continued net losses. While the company is exploring different avenues to turn around the situation as defined in its business and strategy plans, such as focusing on profitable business and avoiding loss-making Government mass health policies, the ability to successfully implement these plans and receive the required equity from the GoI would be critical.

OICL has regulatory forbearance specific to the solvency requirements allowed by the Insurance Regulatory and Development Authority of India (IRDAI) for the entire tenure for the servicing of the subordinated debt (sub debt) raised. Under this forbearance, OICL can service the sub debt even if the solvency ratio falls below the minimum regulatory requirement.

The outlook on the rating remains Negative, given ICRA's expectation of continued losses over the medium term, leading to high dependence on capital infusions from the GoI to meet the regulatory solvency ratio.

[1] Unrealised gains on equity investments

Key rating drivers and their description

Credit strengths

Sovereign ownership – OICL is wholly owned by the GoI. ICRA expects the company to continue receiving strong support from the GoI. Considering the extremely low insurance penetration in India, the role of Government-owned insurers, such as OICL, becomes important. Further, GoI support is evidenced from the capital infusion of Rs. 9,950 crore (OICL received Rs. 3,170 crore) and Rs. 5,000 crore (OICL received Rs. 1,200 crore) in FY2021 and FY2022, respectively, across three public sector general insurance companies.

Established player with long operating history – OICL has a long operating history with a recognised brand value in North India. It is the fifth largest player in the general insurance industry with a market share of 6.5% in terms of gross direct premium written (GDPW) in FY2023 (6.7% in FY2022). While the company has a presence in all major segments, the health and motor segments continued to account for a significant share of the GDPW at 55% and 24%, respectively, in FY2023 (48% and 25%, respectively, in FY2022). The company plans to diversify and reduce its high loss portfolio and grow selectively in the motor portfolio. OICL has a strong agency channel with ~31% of its business being sourced through individual agents. Further, direct sourcing accounts for 30% of the business with a wide presence across 1,452 branches.

Credit challenges

Weak solvency levels; largely dependent on GoI capital infusion – In the absence of equity infusions by the GoI in FY2023 and given the weak underwriting performance, OICL's solvency remains weak (negative solvency of 0.96 times as on March 31, 2023 compared to 0.15 times as on March 31, 2022). The company has provided Rs. 2,425 crore for the payment of arrears for the period of August 01, 2017, to July 31, 2022. This has resulted in an elevated combined ratio, which further weakened its solvency profile. OICL has applied to the regulator for the inclusion of 100% of the FVCA for solvency purposes. Post approval, the solvency will improve to 0.56 times as on March 31, 2023, though it will remain lower than the regulatory requirement. Further, the company had a significant amount of 90+ days receivables from its co-insurance and reinsurance arrangements, which is disallowed for the calculation of the solvency ratio. With continued losses in FY2023, OICL's net worth became a negative Rs. 4,147 crore in FY2023 from Rs. 524 crore in FY2022.

OICL requires equity infusion of ~Rs. 4,400 crore to meet the regulatory solvency requirements as on March 31, 2023 after 100% inclusion of the FVCA. Given the expectation of continued underwriting losses, the equity capital required in the medium term is expected to increase further and remain sizeable.

Weak underwriting performance – The company's underwriting performance deteriorated on a year-on-year (YoY) basis in FY2023 due to the impact of the retrospective wage revision (impact of Rs. 2,425 crore in FY2023). OICL reported an underwriting loss of Rs. 7,477 crore in FY2023 compared to Rs. 5,289 crore in FY2022. The combined ratio was elevated at 155% in FY2023 compared to 144% in FY2022. Excluding the impact of the wage revision in FY2023, the company's overall underwriting performance had improved, though the combined ratio remained high at 138%. Consistent improvement in the underwriting performance and sizeable capital infusions by the GoI remain key rating sensitivity factors.

Liquidity position: Adequate

The company's net premium was Rs. 14,339 crore in FY2023 in relation to the maximum net claims paid of Rs. 13,276 crore in the last few years. Investments in Central/state government securities accounted for 48% of its total investments or Rs. 28,017 crore as on March 31, 2023, further supporting the liquidity to meet the claims of policyholders. While the shareholders' investment was negative as on March 31, 2023, considering the regulatory forbearance, the servicing of interest should not be a constraint even if the solvency ratio is below the minimum regulatory requirement.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if there is a consistent improvement in the underwriting performance and sizeable capital infusions by the GoI, resulting in a sustained improvement in the cushion above the regulatory solvency requirement.

Negative factors – ICRA could downgrade the rating on a dilution in OICL's strategic role and importance to the GoI or on inadequate capital infusions by the GoI or further weakening of the capital position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – General Insurance Impact of Parent or Group Support on an Insurer's Credit Rating Rating Approach-Consolidation
Parent/Group support	The rating factors in OICL's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to continue supporting OICL with capital infusions.
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of OICL. However, in line with ICRA's limited consolidation approach, the capital requirement of OICL's key subsidiaries/associates/joint ventures, going forward, has been factored in.

About the company

The Oriental Insurance Company Ltd. (OICL), incorporated on September 12, 1947, is a general insurance company fully owned by the Government of India. It offers general insurance services across a variety of segments. With its head office in New Delhi, OICL has 29 regional offices and 1,800+ operating offices with 13,500+ employees. OICL's gross direct premium written was Rs. 15,993 crore in FY2023 and it reported an underwriting loss of Rs. 7,477 crore and a net loss of Rs. 4,968 crore.

Key financial indicators (audited)

	FY2022	FY2023
Gross direct premium	14,020	15,993
Total underwriting surplus/(shortfall)	(5,289)	(7,477)
Total investment + Trading income	2,297	2,776
PAT	(3,115)	(4,968)
Net worth (excluding FVCA)	524	(4,147)
Net worth (including FVCA)	6,189	3,015
Total technical reserves	22,550	25,220
Total investment portfolio	27,347	28,017
Total assets	35,289	35,167
Gearing (times)	1.43	(0.18)
Combined ratio	143.5%	154.5%
Regulatory solvency ratio (times)	0.15	(0.96)

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 (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
					Aug 14, 2023	Nov 14, 2022	Nov 17, 2021	Nov 19, 2020
1	**Subordinated debt programme**	Long term	750.0	750.0	**[ICRA]AA (Negative)**	**[ICRA]AA+ (Negative)**	**[ICRA]AAA (Negative)**	**[ICRA]AAA (Negative)**
2	**Issuer Rating**	-	-	-	**[ICRA]AA (Negative)**	**[ICRA]AA+ (Negative)**	**[ICRA]AAA (Negative)**	**[ICRA]AAA (Negative)**

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	Amount Rated (Rs. crore)	Current Rating and Outlook
INE06GZ08015*	**Subordinated debt**	Mar-18-2019	8.80%	Mar-18-2029	750.00	[ICRA]AA (Negative)
NA	**Issuer Rating**	NA	NA	NA	NA	[ICRA]AA (Negative)

Source: Company
**The company has a call option exercisable five years from the date of allotment on March 18, 2024*

Key features of the rated instrument:

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[2]
- 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

OICL has, however, received approval from the regulator, which allows it to pay interest on its subordinated debt instrument even if its solvency ratio is below the minimum regulatory requirement of 150% and interest payouts lead to an increase in the net losses.

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
The Industrial Credit Company Ltd.	100.00%	Limited Consolidation
India International Insurance Pte Ltd	20.00%	Limited Consolidation
Health Insurance TPA of India Ltd.	23.75%	Limited Consolidation

Corrigendum

Updated the link for “Rating Approach-Consolidation” in the analytical approach section on page 3 on the document dated August 14, 2023.

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

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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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