May 09, 2024

Tata AIG General Insurance Company Limited: Rating reaffirmed

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	730.00	730.00	[ICRA]AAA (Stable); reaffirmed
Total	**730.00**	**730.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating considers Tata AIG General Insurance Company Limited's (Tata AIG) established market position as the fifth largest private general insurer with a market share[1] of 5.4% in terms of gross direct premium income (GDPI) in FY2024. The company has a well-established presence in the motor segment (49.3% of GDPI). Strong growth for the company has been supported by the diversified and expanding distribution network. Given the scale-up in the entity's business franchise, operating expenses have increased, resulting in an elevated combined ratio, even though the loss ratio remains comparable to its peers. The overall net profitability remains healthy, supported by the higher investment leverage driven by relatively higher retention levels and the presence of motor-third party (TP) policies. As on March 31, 2024, Tata AIG's solvency stood comfortably at 2.09 times with an adequate cushion over and above the regulatory requirement on a sustained basis. The company's solvency has been supported by both healthy internal accruals and capital infusions from the promoters. While the company has a relatively diversified product portfolio, the share of the long-tail motor-TP business is high, which along with higher retention of the risk on its own balance sheet, exposes the future profitability and solvency to reserving risks.

The rating also factors in the strong 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/Positive by Moody's Investors Service) holding 26%. The shared brand name and representation on the board strengthens ICRA's belief that Tata AIG will receive adequate and timely capital support from Tata Sons if required. Tata AIG has a track record of capital infusions from promoters (Rs. 960 crore of equity infused by the sponsors during FY2016-FY2020).

The Stable outlook factors in Tata AIG's strong distribution and established presence, prudent investment book and the expectation that it will continue receiving support from the promoter as well as maintain its solvency level above the negative rating trigger.

Key rating drivers and their description

Credit strengths

Strong parentage – As on March 31, 2024, Tata Sons and AIG held a stake of 74% and 26%, respectively, in Tata AIG. 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

[1] Excluding specialised insurers (AIC and ECGC)

by the presence of a shared brand name, board-level supervision and track record of equity infusions. Tata AIG's board comprises eight directors, representing both shareholders: two from Tata Sons, one from AIG and three independent directors. Going forward, the continued support of Tata Sons would be a key rating sensitivity.

Comfortable solvency profile supported by healthy internal accruals – Tata AIG's capitalisation profile remains comfortable with a solvency ratio of 2.09 times as on March 31, 2024, 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[2] of 14.2% during FY2021-FY2024. The company's underwriting performance remains moderate in FY2024, with a combined ratio of 109.3% (109.5% in FY2023). While the loss ratio improved to 71.4% in FY2024 from 73.6% in FY2023, the overall expenses also increased, resulting in a largely stable combined ratio. However, the underwriting performance was offset by investment income on the float generated through advance premium income and a high share of the long-tail motor-TP business. The investment leverage[3] (6.5 times as on March 31, 2024) 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. ICRA does not expect any capital requirement as the solvency ratio is strong for supporting growth in the medium term. The company's reserving levels for the long-tail business segments have historically been prudent while the claim experiences have remained within the original estimates, providing comfort regarding the level of provisions created against the risk underwritten.

Established market position; growth supported by diversified distribution channel- Tata AIG's GDPI growth has historically exceeded the industry average, leading to an improved market share[4] of 5.5% in FY2023 vis-à-vis 3.8% in FY2018. The strong performance has been driven primarily by robust growth in the motor, commercial and health segments. The growth in FY2024 was lower than the industry growth, as part of its strategy of selective underwriting in the motor segment. Nevertheless, the company is the fifth largest private general insurer, with industry[5] market share of 5.4% in terms of GDPI in FY2024.

Tata AIG has a strong presence in the motor segment (market share of 8.1% in FY2024; second largest private insurer in the segment), accounting for 49.3% of the GDPI in FY2024. Besides motor, other key segments for the company include fire, accounting for 13.7% of the GDPI in FY2024 and health and Personal Accident (20.8%). Tata AIG has a reasonable presence in the commercial business segment due to the expertise derived from its parent, AIG.

The company's strong growth has been supported by its diversified distribution network. Its distribution mix is largely dominated by brokers, with 38.1% share in the total distribution in FY2024. Other key distribution channels include individual agents (22.7%) and direct (13.8%). Over the past few years, the company has strengthened its distribution network and increased its number of agents, which is expected to help Tata AIG maintain its growth pace for the retail portfolio by expanding into new territories and further diversifying its premium mix.

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 long-tail motor-TP segment, which accounted for 25-30% of Tata AIG's total GDPI in the last few years (declined to 27.1% in FY2024 compared to 29.1% in FY2023). The long-tail nature of the motor-TP segment, given the legal process involved in claim settlement, could result in uncertainty regarding the level of future claims in relation to the past reserves made for this segment. The company's loss-reserving triangle, which involves actuarial estimates, indicates that it has maintained adequate reserves with favourable developments in past years. As a prudent measure in recent years, the company restricted the release from reserves until the claims experiences emerged, reflecting a prudent reserving philosophy. However, the eventual

2 *Return on equity= PAT/ Adjusted Net Worth*

3 *Investment leverage = (Total investment – Subordinated debt)/Net worth*

4 *Excluding specialised insurers (AIC and ECGC)*

5 *Excluding specialised insurers (AIC and ECGC)*

outcome for the risk-in-force may be realised with a considerable lag, which could impact future profitability and solvency. Further, the profitability of this segment could be impacted as the pricing of motor-TP rates is regulated.

Liquidity position: Strong

The company's net premium was Rs. 9,992 crore in FY2024 in relation to the maximum net claims paid of Rs. 4,680 crore in the last few years, reflecting the strong ability to pay claims from the operating cash flow. The long-tail motor-TP business also aids the entity's liquidity profile. It had investments in Central/state government securities of Rs. 9,103 crore, accounting for 29% of the total investments as on March 31, 2024, further supporting its liquidity to meet any unexpected rise in policyholder's claims. Tata AIG's shareholders' investment of Rs. 6,052 crore also remains strong in relation to the Rs. 730 crore sub-debt outstanding as on March 31, 2024.

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, 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 1.70 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 221 locations across India.

Key financial indicators (audited)

Tata AIG	FY2023	FY2024
Gross direct premium	13,176	15,091
PAT	553	685
Net worth*	4,919	8,976
Total investments	23,493	31,154
Combined ratio	109.5%	109.3%
Return on equity-PAT/Adjusted net worth	13.9%	14.6%
Solvency ratio	1.94	2.09

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount Outstanding as of Apr 30, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 09, 2024	May 15, 2023	Aug 30, 2022	Aug 31, 2021
1	Subordinated Debt Programme	Long term	185.00	185.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)
2	Subordinated Debt Programme	Long term	0.00	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AA+ (Positive)
3	Subordinated Debt Programme	Long term	545.00	545.00	[ICRA]AAA (Stable)	[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)
INE067X08034	**Subordinated Debt Programme**	Sep 27, 2023	8.15%	Sep 27, 2033	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[6]

» 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

[6] *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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