March 07, 2025

Universal Sompo General Insurance Company Limited: [ICRA]AA (Stable) assigned to subordinated debt programme; ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AA+ (Stable); reaffirmed
Subordinated debt programme	150.00	150.00	[ICRA]AA (Stable); reaffirmed
Subordinated debt programme	0.00	115.00	[ICRA]AA (Stable); assigned
Total	**150.00**	**265.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Universal Sompo General Insurance Company Limited's (Universal Sompo) strong promoter profile, with Sompo Japan Insurance Inc. (Sompo; rated Moody's A1/Stable[1]) and Indian Bank holding equity stakes of 34.61% and 28.52%, respectively, and the demonstrated operational, managerial, and financial support. The ratings consider Sompo's representation on Universal Sompo's board of directors and the shared brand name, which further strengthens ICRA's expectation of adequate and timely capital support. While the company has access to the distribution network of its promoter banks, the scale-up has been relatively muted with the same accounting for only 7.6% of its gross direct premium income (GDPI) in FY2024. Additionally, the agency channel accounts for 3.2% of the GDPI in FY2024, resulting in high reliance on brokers to source business. The ratings also factor in the ongoing diversification of the distribution channels with higher focus on the agency and broking channels, including original equipment manufacturers (OEMs), to increase new business sourcing in the motor segment, group health and commercial lines of business. This is expected to improve product diversification.

Universal Sompo's solvency, which stood at 1.98 times as on December 31, 2024, has been supported by healthy internal accruals and the raising of sub-debt in Q1 FY2025. The company is planning to raise additional sub-debt of Rs. 115 crore, which will support near-term growth. Given its growth plans, Universal Sompo is likely to require further capital in the medium term. Further, ICRA expects support from Sompo to be forthcoming, if required.

The ratings remain constrained by Universal Sompo's sizeable concentration in the tender-driven bulky crop segment, which accounted for 25.2% of its gross direct premium income (GDPI) in 9M FY2025 though the same has been reducing gradually, its moderate scale of operations and the rising share of long-tail business that exposes the company to reserving risks. Further, while the share of the health segment in the overall GDPI is increasing, it remains concentrated towards group health. The company has recently scaled up this segment and its performance remains to be seen. Over the medium term, Universal Sompo's ability to diversify its product mix and improve its underwriting performance and operating efficiency would be critical for enhancing its earnings profile.

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

[1] *For Insurance Financial Strength*

Key rating drivers and their description

Credit strengths

Strong parentage with operational, managerial, and financial support from Sompo – Sompo's stake in Universal Sompo was 34.61% as on December 31, 2024. Sompo was established in October 1888 and is one of the largest domestic property and casualty (P&C) insurers in terms of the consolidated net premium written in Japan. As on March 31, 2024, it had a presence in 28 countries and regions through overseas subsidiaries, branches, and representative offices. Universal Sompo leverages Sompo's experience in the insurance sector across many countries, particularly in the crop segment. This is evidenced by the presence of three board nominees from Sompo, supporting Universal Sompo's strategic decision-making process. In addition, Sompo has nominated a Deputy Chief Executive Officer (CEO), who shares responsibilities with the Indian CEO in the management of the company. In terms of capital support, Sompo and Dabur Investment Corporation (DIC) subscribed to Universal Sompo's rights issue of Rs. 100 crore in FY2018. Further, Sompo and DIC purchased the shares transferred by Karnataka Bank Limited (KBL) in FY2019, increasing their shareholding to 34.61% and 12.81%, respectively, as on March 31, 2019, from 28.42% and 10.74%, respectively, as on March 31, 2018.

As recently announced in the Budget speech, foreign direct investment (FDI) in the insurance sector is proposed to be increased to 100% from 74% and Sompo expects to raise its shareholding, if required, with prior approval from other shareholders. Universal Sompo also gets support from the three promoter banks, in terms of business origination, through the bancassurance (banca) channel, though there is scope for improving the same as it accounted for 7.6% of the GDPI in FY2024. As on December 31, 2024, Universal Sompo's board consisted of 16 directors with extensive experience in the financial services industry, including three representatives from Sompo Japan and seven from the promoter banks.

Diversification of distribution channels, though reliance on broker channel can be reduced – Universal Sompo's GDPI rose at a compound annual growth rate (CAGR) of 15% in the last three years, primarily driven by the expansion of its distribution network in the broker channel (mainly motor and group health segments) and its strategic tie-ups with automobile OEMs, ensuring sustainable and profitable growth. Five new OEMs were added in FY2024. The improvement in the company's product diversification is due to the ongoing diversification of the business segment in the last few years. As a result, the granular motor segment is now the largest business segment, which stood at 42.8% of the total GDPI in 9MFY2025 compared to 33.1% in FY2021, whereas the tender-driven crop business declined to 25.2% in 9M FY2025 from 44.2% in FY2021.

While Universal Sompo's presence in the commercial business is limited, it is incrementally focusing on improving the same through various measures. The company's distribution mix is largely dominated by brokers (motor and group health) and direct business (crop business) with a 44.9% and 39.3% share, respectively, in the total distribution in 9M FY2025. ICRA expects Universal Sompo to maintain the pace of growth in its retail portfolio by expanding into new territories and diversifying its premium mix further.

Solvency supported by internal accruals and sub-debt – Universal Sompo's capitalisation has been supported by internal accruals, with an average return on equity of 12.3% during FY2022-FY2024 and 14.7% in 9M FY2025. The last capital infusion was Rs. 100 crore in FY2018. Solvency stood at 1.98 times as on December 31, 2024, supported by the sub-debt of Rs. 150 crore raised in Q1 FY2025 (1.80 times as March 31, 2024). The company is looking to raise additional sub-debt of Rs. 115 crore, which will boost the solvency to 2.12 times on a proforma basis. Given its growth plans, Universal Sompo is likely to require additional capital in the medium term. ICRA expects capital support from the promoters to meet the growth plans, while maintaining the solvency above ICRA's negative threshold of 1.70 times.

The company's underwriting performance remains better than peers with an average overall combined ratio of 101.0% during FY2022-FY2024, supported by the crop segment. The underwriting performance improved further in 9M FY2025 with a combined ratio of 98.6%. While Universal Sompo has diversified into the motor segment, which typically has higher loss ratios and management expense, its underwriting performance in motor has been supported by the out-of-court settlements in the motor-third party (Motor-TP) segment (leading to a favourable development of Rs. 128 crore, Rs. 12 crore and Rs. 80-90 crore in FY2023, FY2024 and 9M FY2025, respectively) and selective underwriting in the motor-own damage (Motor-OD) segment. ICRA expects the company's profitability to remain healthy.

Credit challenges

Moderate scale of operations – Although the company's gross direct premium increased at a CAGR of 12.8% during FY2020-FY2024, surpassing the industry growth rate of 11.8%, its operations remained moderate with a market share of 1.7% and 1.8% in FY2024 and 9M FY2025, respectively. Universal Sompo faces stiff competition from private as well as public sector general insurance companies in India. While its market share in the crop segment remains notable, ICRA notes that the company's market share in the retail segments (retail health and motor) is modest at 1.7%.

High dependence on tender-driven crop segment may lead to volatility in top line, although share is declining – Universal Sompo has underwritten a high share of the crop business compared to peers. The crop segment accounted for 32.5% of the GDPI in FY2024 (25.2% in 9M FY2025). It is driven by tenders and remains lumpy and volatile in nature. With most of the tenders having an 80-110 scheme[2], 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. To mitigate losses in the bulk business segment, reinsurance is high in these segments, leading to lower retention and net premium written in relation to the GDPI. Universal Sompo's ability to consistently underwrite profitable business in the crop segment would have a bearing on its overall revenues and profitability.

Rising share of long-tail business exposes the company to reserving risks – In recent years, the company has diversified its product portfolio by increasing its focus on the motor segment, which expanded at a CAGR of 28% during FY2021-2024. However, its increasing presence in the Motor-TP segment (23.9% of the GDPI in 9M FY2025 from 19.3% in FY2021) 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. Universal Sompo's loss reserving triangle, which involves actuarial estimates, indicates that it has maintained adequate reserves in the past and shows a favourable claims experience in this segment largely due to out-of-court settlements. The eventual outcome for the risk-in-force may be known with considerable lag, which could impact future profitability and solvency. Further, this segment's profitability could be impacted as the pricing of Motor-TP rates is regulated.

Liquidity position: Adequate

The company's net written premium was Rs. 2,109 crore in FY2024 in relation to the maximum net claims paid of Rs. 1,688 crore in the last few years, reflecting sufficient ability to pay claims from the operating cash flow. Universal Sompo had investments in Central/state government securities, accounting for 35.7% of the total investments of Rs. 4,981 crore as on December 31, 2024, further supporting the liquidity to meet the claims of policyholders. Shareholders' investments stood at Rs. 1,216 crore in relation to the Rs. 150-crore sub-debt outstanding as on December 31, 2024.

Rating sensitivities

Positive factors – A sustained improvement in Universal Sompo's profitability, along with an increase in its market share and a further increase in its importance to Sompo, would be a positive factor.

Negative factors – A deterioration in Sompo's credit profile or a decline in the strategic importance of Universal Sompo to Sompo or in the expectation of support from the promoter could impact the ratings. 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/Group company: Sompo Japan Insurance Inc. The ratings factor in the high likelihood of financial support from Sompo Japan Insurance Inc. to Universal Sompo, driven by reputational and strategic considerations
Consolidation/Standalone	Standalone

About the company

Universal Sompo is a joint venture (JV) with Sompo holding a 34.61% stake as on December 31, 2024, followed by Indian Bank (28.52%), Indian Overseas Bank (18.06%), Dabur Investment Corporation (12.81%) and Karnataka Bank Limited (6.00%). The company commenced operations in India in November 2007. It had 180 offices and more than 1,900+ employees as on December 31, 2024. Universal Sompo offers a range of general insurance products catering to the retail, rural, small, and medium-sized enterprise (SME) and corporate customer segments.

Key financial indicators – Standalone

Universal Sompo General Insurance Company Limited	Audited FY2023	Audited FY2024	Unaudited 9M FY2025
Gross direct premium	4,103	4,622	4,018
PAT	177	182	179
Net worth*	1,269	1,441	1,620
Total investment	4,386	4,612	4,981
Combined ratio	99.7%	100.7%	98.6%
Return on equity	13.9%	12.6%	14.7%^
Regulatory solvency ratio (times)	1.73	1.80	1.98

*Source: Universal Sompo, ICRA Research; Amount in Rs. crore; All calculations are as per ICRA Research; * Net worth excludes fair value change account*
^ 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)**	**Mar 07, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Issuer Rating	Long term	-	[ICRA]AA+ (Stable)	Mar-12-2024	[ICRA]AA+ (Stable)	Jul-12-2022	[ICRA]AA+ (Stable)	-	-
				Mar-05-2024	[ICRA]AA+ (Stable)	-	-	-	-
				Jul-28-2023	[ICRA]AA+ (Stable)	-	-	-	-
Subordinated debt programme	Long term	150.0	[ICRA]AA (Stable)	Mar-12-2024	[ICRA]AA (Stable)	-	-	-	-
Subordinated debt programme	Long term	115.0	[ICRA]AA (Stable)						

Source: ICRA Research

Complexity level of the rated instruments

Instrument	Complexity indicator
Issuer Rating	Not Applicable
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
NA	**Issuer Rating**	NA	NA	NA	NA	[ICRA]AA+ (Stable)
INE635M08015	**Subordinated debt programme**	Jul-25-2024	9.85%	Jul-25-2034	150.00	[ICRA]AA (Stable)
Yet to be placed	**Subordinated debt programme**	-	-	-	115.00	[ICRA]AA (Stable)

*Source: Universal Sompo, 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 before the redemption date*

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:

» 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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Bharat Toplani
+91 22 6114 3428
bharat.toplani@icraindia.com

Abhilash Rathi
+91 22 6114 3421
abhilash.rathi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches