RATING RATIONALE

10 Feb 2020

United India Insurance Company Limited

Brickwork Ratings reaffirms the ratings of United India Insurance Company Limited's subordinated debt amounting to Rs. 900 Crores and places the Rating on Credit Watch with Developing Implications

Particulars:

Instrument**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (February, 2019)	Present
Subordinated Debt	900	900	Long Term	BWR AAA (Stable)	BWR AAA Reaffirmed (Credit Watch with Developing Implications)
Total	900	900	Rupees Nine Hundred Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Instrument details is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings reaffirms its rating on the Subordinated debt of United India Insurance Company Limited ('UIIC' or 'Company') while placing the rating on "**Credit Watch with Developing Implications**", as tabulated above. Brickwork Ratings (BWR) has relied upon the company's financials upto September 30, 2019, publicly available information, and information and clarification provided by the company's management.

The rating reaffirmation primarily factors in the Forbearance granted by the regulator- Insurance Regulatory and Development Authority of India (IRDAI) for the said subordinated debt of Rs.900Cr of Company. The forbearance allows the company to service the interest or coupon obligations to the investors in this issue throughout the life of the instrument, irrespective of whether it meets the regulatory solvency ratio or not.

The rating reaffirmation also continues to factor in the Government of India (GOI)'s ownership with 100% shareholding (as of 31-Dec-2019) of UIIC and its continued support expected in the form of capital infusion, which partially offsets the weakening of underwriting performance and the subsequent pressures on profitability and solvency ratios. The company has maintained its position in the market as the second largest in the general insurance sector with gross direct premium (GDP) of Rs.12,547 Cr as of 31 December 2019.

BWR places the rating on Credit Watch with Developing Implications to monitor: 1) the quantum of capital infusion by the government to strengthen UIIC's capitalization and solvency ratio which has weakened in the current fiscal due to high underwriting losses & 2) the proposed merger between United India Insurance Company Limited, National Insurance Company Limited (NIC) and The Oriental Insurance Company Limited (OIC) which is expected to fructify in the coming fiscal.

The company's performance in fiscal 2019 and for the first half of the current fiscal has been weak. Underwriting losses were Rs.5,024 Cr in FY19 and Rs.2,498 Cr for H1 FY20. The networth of the Company also dipped to Rs. 1,808 Cr as of 30-Sep-2019 from Rs.2,899 Cr as of 31-Mar-2019. The Increase in Net Incurred Claims, especially in the Health sector, has led to an increase in losses impacting the networth. As a result the solvency ratio which was at 1.52x as of 31-Mar-2019 (marginally above the regulatory requirement of 1.5x) dipped to a low of 1.05x by end of September 30,2019.

The GOI has made Budgetary allocations of Rs.2,500 Cr as per revised estimates 2019-20 and of Rs.6,950 Cr as per budget estimates 2020-21. UIIC expects a substantial amount in the form of capital infusion from the Budgetary allocation. The quantum of the capital infusion along with the operational performance and business integration of the 3 insurance companies as part of the merger plans will be key monitorable for resolving the credit watch.

As of 30-Sep-2019, the Solvency ratio of UIIC was 1.05x, NICs was 1.21x and OIC's was 1.56x, and the Gross Direct Premium underwritten as of 31-Dec-2019 of UIIC is Rs.12,547 Cr, NIC is Rs.11,055 Cr and OIC is Rs.10,076 Cr. The merged entity will make it the largest player in the general insurance sector.

KEY RATING DRIVERS
Credit Strengths:

- **Market Share in General Insurance Market:** United India Insurance is the second-largest general insurance company in India. It has a market share of 9.5% based on gross premiums originated in India in fiscal 2019. The company had gross direct premium of Rs.16,420 Cr as of 31-Mar-2019 and of Rs.12,547 Cr as of 31-Dec-2019. With significant market share and substantial gross premiums, the company has strong market positioning in the general insurance space.

- **Portfolio Quality:** As of September 30, 2019 the Company has more than 94% of its debt investments in Govt. securities and in AA and above rated corporate bonds indicating adequate liquidity. The AA rated investments have undergone revision downward during FY20, however with substantial and increased investments in AA and above rated category it is less likely to impact the company's liquidity profile and profitability. The company is taking appropriate measures to strengthen the credit quality of its investment portfolio.

- **Strong Government Support:** Strong government support is expected to continue given the company's established track record in the general insurance space along with extensive market reach. BWR believes general insurance companies, especially government-owned entities, are systemically important and will receive both ongoing and distress support from the government of India.

- **Forbearance from Regulations related to Other Forms of Capital :** The regulatory forbearance granted to the company from adhering to provisions 3(vii) and 5(vii) of Insurance Regulatory and Development Authority of India (Other Forms of Capital) Regulations, 2015, for this specific subordinated debt issue of Rs 900 crore virtually eliminates the risk factor for its subordinated debt issue as it is allowed to service the interest or coupon payments throughout the life of the instrument irrespective of the solvency ratio.

Credit Risks:

- **Weakening of Underwriting Performance:** The underwriting performance reflected through a combined ratio has weakened from 120% in FY18 to 137% in FY19. The company has an underwriting premium of Rs.7,584 Cr for H1FY20 against Rs.7,456 Cr in H1FY19. Improvement in underwriting performance to offset the increasing higher claims in health and fire segments shall be a key monitorable. Apart from the Motor Third Party segment, the health sector is the cause of concern for additional reserve requirements for this segment.

- **Pressure on Profitability and Solvency Margin:** Due to an increase in incurred claims especially in the Health sector there was a significant pressure on profitability. Underwriting deficit increased from Rs.2,542 Cr in FY18 to Rs.5,024 Cr in FY19. As of H1FY20, the Underwriting deficit is Rs.2,497 Cr and is expected to remain under stress this fiscal. The company reported solvency ratio of 1.52x as of 31-Mar-2019 and of 1.05x as of 30-Sep-2019. The issue of Subordinated Hybrid Debt of Rs.900 Cr. is to be treated as part of capital and hence part of improvement in the Solvency ratio. GOIs support in the form of fund infusion shall assist in improving the solvency. Going forward, substantial improvement in Gross Direct Premium to manage any higher levels of Incurred claims shall assist in easing the pressure on underwriting deficit and profitability and solvency for FY21.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below.(hyperlinks provided at the end of this rationale). Apart from this the rating assigned derives strength from the Government ownership and Forbearance clause for the said bond issue.

RATING SENSITIVITIES

The rating sensitivities factors in the performance of the company, apart from the GOI's ownership and continued support for capital infusion and strong board and management of the Company

Negative: Significant weakening in overall performance, business implications of lower than regulatory required solvency ratios and delay in infusing the requisite capital in the company could have a negative implication on the rating and/ or the outlook of the company.

LIQUIDITY INDICATORS : ADEQUATE

As of 30-Sep-2019, out of the total Investment portfolio amounting to Rs.29,199 Cr, the company has invested Rs.12,215 Cr in Govt Securities and Rs.7,533 Cr in 'AA' and above rated corporate bonds. It also has cash and cash equivalents amounting to Rs.1,346 Cr as of 30-Sep-2019. The Company has borrowings of Rs.900 Cr in the form of subordinated debt.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

Hybrid instruments issued by insurers, are subordinated to the policyholders' obligation, and have risk features similar to Upper Tier II bonds, issued by banks under Basel II regulations. They carry additional risks because of restriction on debt servicing if the solvency ratio falls below the regulatory stipulation, and the need for regulatory approval for servicing these instruments, in the event of loss or inadequate profit. The regulatory forbearance granted to United India Insurance virtually eliminates the risk factor for its subordinated debt issue as it is allowed to service the interest or coupon payments throughout the life of the instrument, irrespective of the solvency ratio.

COMPANY PROFILE

United India Insurance Company Limited was incorporated as a Company on 18th February 1938 in Chennai. The Company is wholly owned by the Government of India. It is the Second largest Public Sector General Insurer in the country in terms of Gross Premiums. As of March 31, 2019 the company had 9.5% market share in General Insurance Business. It majorly insures risks in areas of Fire, Motor, Marine,Health, Travel. Management: Shri Girish Radhakrishnan is the Chairman and Managing Director of the Company who assumed office in September 2018.

Industry: There are 24 life insurance and 33 non-life insurance companies in the Indian market who compete on price and services to attract customers. There are two reinsurance companies. The industry has been spurred by product innovation, vibrant distribution channels, coupled with targeted publicity and promotional campaigns by the insurers. The market share of private sector companies in the non-life insurance market rose from 13.12 per cent in FY03 to 55.7 per cent in FY20 (up to April 2019). In the life insurance segment, private players had a market share of 25.29 per cent in new business in FY19. Government has approved the ordinance to increase Foreign Direct Investment (FDI) limit in the Insurance sector from 26 per cent to 49 per cent which would further help attract investments in the sector. As per Union Budget 2019-20, 100 percent foreign direct investment (FDI) will be permitted for insurance intermediaries. In 2017, the insurance sector in India saw 10 merger and acquisition (M&A) deals worth US$ 903 million. Enrolments under the Pradhan Mantri Suraksha Bima Yojana (PMSBY) reached 130.41 million in 2017-18. National Health Protection Scheme was announced under Budget 2018-19 as a part of Ayushman Bharat. The scheme will provide insurance cover of up to Rs 500,000 (US$ 7,723) to more than 100 million vulnerable families in India. Going forward, increasing life expectancy, favourable savings and greater employment in the private sector is expected to fuel demand for pension plans. Likewise, strong growth in the automotive industry over the next decade would be a key driver for the motor insurance market. Gross premiums written in India reached Rs 5,78,000 crore (US$ 82.8 billion) in FY19, with Rs 4,08,000 crore (US$ 58.5 billion) from life insurance and Rs 1,69,000 crore (US$ 24.3 billion) from non-life insurance. ***(Source: https://www.ibef.org/industry/insurance-presentation)***

FINANCIAL PERFORMANCE

The Gross Direct Premium of the Company has decreased from Rs.17,430 Cr. in FY18 to Rs.16,420 Cr in FY19. Motor Segment was the most affected due to changes brought about by Court Judgments with regards to PUC, Long Term Policies and High Value Personal Accident Insurance Cover. As a result in Motor OD Segment the gross direct premium income growth came down from around 11% in earlier years to mere 0.50%. The Motor TP segment which was growing at a very healthy pace of 18% to 24% year on year came down to mere 9%. The burden of unamortized Incurred But Not Reported (IBNR) continued to put strain on the solvency throughout 2018-19, resulting in 1.52x. Deferment of IBNR and Incurred But Not Enough Reported of previous periods was recognised during the year. The Net Earned Premium of the company has increased from Rs.12,861 Cr. in FY18 to Rs.13,105 Cr; Net incurred claims amounted to Rs.14,336 Cr.in FY19 compared to lower claims incurred of Rs.12,138 Cr. in FY18; management expenses increased to Rs.3,059 Cr in FY19 from Rs.2,598 Cr in FY18. These resulted in an increase in underwriting loss to Rs.5,024 Cr against underwriting loss of Rs.2,542 Cr. in FY18. The net loss widened to Rs.1,878 Cr in FY19, compared to net profit of Rs.1,003 Cr in FY18. As on 31st March 2019, Net Worth of the company stood at Rs.2,899 Cr and Solvency Ratio was 1.52x.

For H1FY20, the company has a Gross Domestic Premium of Rs.7,895 Cr (FY19: Rs.16,420 Cr) while the Solvency ratio has weakened to 1.05x (FY18: 1.52x), lower than the regulatory requirement of 1.5x. The Company has incurred a net loss of Rs.1091 Cr in H1FY20 against net loss of Rs.1878 Cr in FY19. The combined ratio has improved to 115% (FY19: 137%). The slowing down of performance is a result of decrease in customers, booking of fewer premiums, dumping of group health sector policies as a result of runaway claims.

KEY FINANCIAL INDICATORS

Key Parameters	**Units**	**FY18 Audited**	**FY19 Audited**
Gross Direct Premium	**Rs Crores**	17,430	16,420
Net Earned Premium	**Rs Crores**	12,861	13,105
Net profit (loss)	**Rs Crores**	1,003	(1,878)
Networth	**Rs Crores**	4,797	2,899
Combined Ratio	**Per cent**	120	137
Solvency Ratio	**Times**	1.54	1.52

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY - Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS

S No.	Instrument	Current Rating*			Rating History		
		Type	**Amount (Rs Crs)**	**Rating**	**11-Feb-2019**	**12-Feb-2018**	**-**
1	Subordinated Bonds	Long term	900	BWR AAA *Reaffirmed and placed on* Credit Watch with Developing Implications	BWR AAA (Stable) Reaffirmed	BWR AAA (Stable) Assigned	-
	Total		900	INR Nine Hundred Crores Only			

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Bank & Financial Institutions**
- **Insurance Companies**

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United India Insurance Company Limited

ANNEXURE I

INSTRUMENT DETAILS

Instrument	Issue Date	Amount Rs. Crs.	Coupon Rate	Maturity Date	ISIN Particulars
Subordinated Debt	02-Feb-2018	900	8.25%	02-Feb-2028	INE346Z08011

Total Rupees Nine Hundred Crores Only

For print and digital media
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