September 19, 2023

National Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	895.00	895.00	[ICRA]A+ (Stable); reaffirmed
Total	**895.00**	**895.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating considers National Insurance Company Limited's (NIC) sovereign ownership as it is entirely held by the Government of India (GoI), with demonstrated capital support of Rs. 9,275 crore during FY2020-FY2022 and the expectation of continued support from the GoI in future. The rating also continues to reflect NIC's position as one of the leading insurers in the general insurance industry in India. NIC has regulatory forbearance as well for servicing its subordinated debt for the entire tenure of the instrument, even if the solvency ratio is below the minimum regulatory requirement.

The rating remains constrained by the weak solvency and underwriting performance. NIC's solvency profile has deteriorated in the last few years and is unlikely to improve unless supported by a sizeable capital infusion from the GoI. The solvency was negative at -0.43 times (excluding fair value change account (FVCA)[1]) as on June 30, 2023 due to the weak underwriting performance. Moreover, NIC provided Rs. 2,605 crore towards the payment of wage arrears for the period of August 01, 2017 to July 31, 2022, which also adversely impacted its underwriting performance and solvency in FY2023. The company has been reporting losses since FY2018, which are likely to continue in the near to medium term.

NIC has applied to the regulator for the inclusion of 100% of the FVCA on its investments for solvency purposes, though it is yet to receive approval for the same. If 100% FVCA is included, the solvency will turn positive to 0.70 times as on June 30, 2023, but will remain below the regulatory requirement of 1.50 times. While NIC is looking to improve its underwriting performance by rationalising its presence in unprofitable segments, reducing expenses, and improving its pricing, the ability to successfully implement these plans and receive the required equity from the GoI would be critical.

The Stable outlook largely factors in the expectation of continued support from the GoI by way of capital infusions.

Key rating drivers and their description

Credit strengths

Sovereign ownership with entire equity owned by GoI – NIC is wholly owned by the GoI. ICRA expects the company to continue receiving Government support. Considering the extremely low insurance penetration in India, the role of Government-owned insurers, such as NIC, becomes important. Further, GoI support is evidenced from the capital infusion of Rs. 2,500 crore (NIC received Rs. 2,400 crore), Rs. 9,950 crore (NIC received Rs. 3,175 crore) and Rs. 5,000 crore (NIC received Rs. 3,700 crore) in FY2020, FY2021 and FY2022, respectively, across three public sector general insurance companies. There was no capital infusion in FY2023 despite the weak capital position and no capital infusion has been budgeted yet for FY2024.

Leading, albeit declining, market share; long operating history – NIC is among the largest general insurance companies in the country with a strong presence in eastern India and a long operating history. NIC's market share, in terms of the gross direct

[1] *Unrealised gains on equity investments*

premium income (GDPI), declined gradually to 6.3% in FY2023 (9.3% in FY2019). NIC's portfolio concentration remains high in the health & personal accident and motor segments, which accounted for 49% and 34%, respectively, of the total GDPI in FY2023. However, it plans to gradually reduce the portfolio concentration further in the motor and group health portfolios and focus more on non-motor retail products. The company has a strong presence with 882 branches and over 60,000 agents spread across the nation. As a result, individual agents accounted for 37% of the total GDPI while direct sourcing stood at 31% as of FY2023. The company plans to increase the number of agents to 80,000 by FY2024 and 1,00,000 by FY2025 to expand the share of its retail business.

Credit challenges

Weak solvency ratio; largely dependent on GoI capital infusion – NIC has been reporting solvency below the regulatory requirement of 1.50 times since FY2019 due to continuous net losses on account of its weak underwriting performance. The underwriting performance was also impacted by the wage arrears payment of Rs. 2,605 crore in FY2023. As a result, the solvency ratio turned negative to -0.29 times as on March 31, 2023 and remained weak at -0.43 times as on June 30, 2023. NIC has applied to the regulator for the inclusion of 100% of the FVCA on its investments for solvency purposes. If 100% of the FVCA is included, the solvency would improve to 0.48 times as on March 31, 2023 and 0.70 times[2] as on June 30, 2023. With sizeable loss in FY2023, NIC's core net worth (excluding FVCA) turned negative to Rs. 949 crore as on March 31, 2023 (Rs. 2,766 crore as on March 31, 2022).

As per ICRA's estimate, NIC would require a capital infusion of ~Rs. 3,200 crore to meet the regulatory solvency requirements of 1.50 times as on June 30, 2023, even after 100% inclusion of the FVCA. ICRA expects the company's solvency to remain below the regulatory threshold over the medium term, unless there is a sizeable equity infusion from the GoI.

Weak underwriting performance – NIC's underwriting performance remains weak and deteriorated further in FY2023 with underwriting losses of Rs. 6,033 crore (Rs. 4,156 crore in FY2022). The deterioration in the underwriting performance was primarily due to the retrospective wage arrears payment of Rs. 2,605 crore in FY2023. Excluding the impact of the wage revision, the company's overall underwriting performance remained weak with the combined ratio at ~126%. The net loss ratio, though weak, improved in FY2023 to 100.9% from 104.2% in FY2022 with the improvement in the health segment following the waning of Covid claims. Overall, the company reported a net loss of Rs. 3,865 crore in FY2023 (Rs. 1,675 crore in FY2022). Performance remained weak in Q1 FY2024 with a net loss of Rs. 379 crore (Rs. 303 crore in Q1 FY2023). While NIC is looking to improve its underwriting performance by rationalising its presence in unprofitable segments and improving its pricing, the ability to successfully implement these plans and receive the required equity from the GoI would be critical.

Liquidity position: Adequate

The company's net premium was Rs. 13,281 crore in FY2023 in relation to the maximum net claims paid of Rs. 12,443 crore in the last few years. NIC had investments in Central/state government securities, accounting for 39% of the total investments or Rs. 32,359 crore as on June 30, 2023, which supports its liquidity to meet the claims of policyholders. However, it has completely eroded its shareholders' investments, given the negative operating cash flows because of losses. The company's ability to service the subordinated debt is supported only by the regulatory forbearance.

[2] *Despite the lower available solvency margin (ASM) on a sequential basis as of June 2023 mainly due to losses, the solvency ratio will improve subject to the inclusion of 100% FVCA, driven by the rise in the FVCA to Rs. 4,558 crore as of June 2023 (Rs. 3,129 crore as of March 2023) and the largely stable required solvency margin (RSM) as of June 2023*

Rating sensitivities

Positive factors – The rating or outlook may be revised 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 or revise the outlook to negative on inadequate capital infusions by the GoI or on NIC's inability to improve its capital position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – General Insurance Rating Approach – Implicit Parent or Group Support
Parent/Group support	Parent/Group Company: Government of India (GoI) The rating factors in NIC's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to continue supporting NIC with capital infusions.
Consolidation/Standalone	Standalone

About the company

NIC is India's oldest general insurance company. It was incorporated in Kolkata, West Bengal on December 5, 1906. After the passing of the General Insurance Business Nationalisation Act in 1972, it was merged along with 21 foreign and 11 Indian companies to form National Insurance Company Limited. It is fully owned by Government of India. NIC has offices all over India and an office in Nepal. It has a strong presence with 882 offices and over 60,000 agents spread across the nation. NIC's gross direct premium written was Rs. 15,206 crore in FY2023 and it reported an underwriting loss of Rs. 6,033 crore and a net loss of Rs. 3,865 crore.

Key financial indicators (audited)

	FY2022	FY2023	Q1 FY2023*	Q1 FY2024*
Gross direct premium	13,077	15,206	3,262	3,555
Total underwriting surplus/(shortfall)	(4,156)	(6,033)	(677)	(975)
Total investment + Trading income	2,641	2,830	613	672
PAT	(1,675)	(3,865)	(303)	(379)
Net worth (excluding fair value change)	2,766	(949)	2,493	(1,292)
Fair value change account	2,692	3,129	1,917	4,558
Total technical reserves	25,955	26,927	NA	NA
Total investment portfolio	33,391	31,617	32,010	32,359
Total assets	40,493	38,896	39,561	40,763
Combined ratio	134.2%	145.5%	124.3%	132.0%
Reported solvency ratio (times)	1.09^	(0.29)	0.63	(0.43)

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * Unaudited results*

^ Includes 75% of fair value change account balance as on March 31, 2022, post IRDAI's approval

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
					Sep 19, 2023	Oct 12, 2022	Oct 14, 2021	Oct-19-2020
1	**Subordinated debt programme**	Long term	895.00	895.00	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE168X08014	Subordinated debt	Mar-27-2017	8.35% p.a.	Mar-27-2027	895.0	[ICRA]A+ (Stable)

*Source: Company; * The bond had a first call option after five years of issuance, which was not exercised by the company*

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[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

NIC 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 – Not Applicable

[3] *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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