

Rating Rationale

January 31, 2020 | Mumbai

United India Insurance Company Limited

Rating outlook revised to 'Negative'; ratings reaffirmed

Rating Action

Rs.900 Crore Subordinated Debt	CRISIL AAA/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Financial Strength Rating	AAA/Negative (Outlook revised from 'Stable' and rating reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised its rating outlook on the financial strength rating and subordinated debt instrument of United India Insurance Company Limited (United India Insurance) to **'Negative'** from 'Stable', while reaffirming the ratings at 'AAA' and 'CRISIL AAA', respectively.

The revision in outlook reflects weakness in the underwriting performance of United India Insurance, which moderated in the course meeting additional provisioning requirements for motor third party business over fiscal 2017 to 2019, and the resultant pressure on profitability and solvency margin.

For the half year ended September 30, 2019, United India Insurance has reported a solvency ratio of 1.05 times (including the entire balance in fair value change account), well below the regulatory requirement of 1.5 times.

For half year ended September 2019, the company reported an underwriting loss of Rs 2,497 crore translating to a combined ratio of 139.8% which resulted in an overall loss of Rs 1,091 crore for the period, as compared to Rs 2,903 crore of underwriting deficit which translated to a combined ratio of 147.4%.and, led to an overall loss of Rs 1,430 crore, for the corresponding period of the previous fiscal. Resultantly, as on September 30, 2019, United India Insurance has reported a solvency ratio of 1.05 times (including the entire balance in fair value change account), below the regulatory stipulation of 1.5 times. The modest underwriting performance has constrained the overall profitability and solvency position of United India Insurance. Particularly for half year ended September 2019, the weakness in underwriting performance can also be attributed to factors like increased frequency of natural calamities over fiscal 2019 which resulted in higher claims in the aftermath and transition to 1/365 accounting method for unexpired risk reserves for foreign business. While the second half is expected to be better, underwriting performance is expected to remain modest constraining the overall profitability. Overall solvency, unless supported by external equity infusion, is expected to remain under pressure.

Nevertheless, CRISIL's ratings continue to centrally factor in the company's strategic importance to, and expectation of strong support from, the Government of India (GoI) and reflect the company's established market position in the Indian general insurance industry. These rating strengths are partially offset by significant weakening of the underwriting performance accentuated by additional reserving requirement for motor third party business over fiscal 2017-19 and the resultant pressure on profitability and solvency.

The rating on the subordinated debt instrument continues to be centrally based on forbearance granted by Insurance Regulatory and Development Authority of India (IRDAI) to United India Insurance 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. The forbearance allows the company to service the interest or coupon payments to the investors in the issue throughout the life of the instrument irrespective of solvency ratio. IRDAI has also granted forbearance against provision 14 of the regulation and has allowed the company to issue subordinated debt to the extent of 25% of its networth as on March 31, 2017.

Analytical Approach

CRISIL has first assessed United India Insurance's financial strength, which is an indication of the company's ability to meet policyholders' obligations. For arriving at the financial strength, CRISIL has factored in expectation of strong government support, in addition to the assessment of business, financial, and management risk profiles of the company. The subordinated debt instrument is then tested for additional risk factors to determine whether its rating should be the same as, or lower than, that of the financial strength.

Key Rating Drivers & Detailed Description

Strengths:

* Strategic importance to, and expectation of strong support from, GoI

United India Insurance is expected to receive strong government support on a steady state basis, driven by its established track record and extensive market reach which makes strategically very important to the Government. The importance of the general insurance sector, especially government-owned insurers such as United India Insurance, can also be perceived in the context of GoI's plan to materially enhance insurance penetration over the long term. General insurance companies,

especially government-owned entities, are systemically important and will receive support from the government in the event of strain on their credit risk profiles.

CRISIL has also noted the announcement regarding proposed merger of United India Insurance with National Insurance Company Ltd (National Insurance) and The Oriental Insurance Company Ltd (Oriental Insurance) which has been underway and, continues to monitor the proceedings in the merger process.

*** Established market position**

United India Insurance is the second-largest general insurance company in India. It has a market share of around 8.8% based on gross premiums originated in India during the first nine months of fiscal 2020. It underwrote gross premium of Rs 16,420 crore for fiscal 2019 registering a negative growth of 2% over the previous fiscal. The negative growth was a factor of shift in company's focus from growth to improving underwriting processes and restoring solvency position. Nevertheless, during first half of fiscal 2020, the company has regained momentum and has grown its gross premiums by 10% of the corresponding period of last fiscal. Throughout this phase, the premium mix across segments has remained broadly unchanged with motor remaining the largest segment at >40%, followed by health ' the share of which, though declined from >30% to ~26%, remains substantial. Despite intermittent volatility in market share, United India Insurance's market position remains strong, supported by its long and established track record, extensive market reach, and its status as a Gol-owned company, and is expected to remain a large player in the industry over the medium term.

Weaknesses

***Significant weakening in underwriting performance**

United India Insurance's underwriting performance has moderated after fiscal 2017 because of additional provisioning requirement in the motor third party segment. In the first half of fiscal 2020, the company reported a combined ratio of 139.8% - constituted by a high claims ratio of 115.6% and a steady expense ratio of 24.1%. The decline in underwriting performance is largely attributable to very high claims ratio in group health, marine and fire segments and requirement of additional IBNR reserves for motor third party business which were made over 2 years through fiscal 2019. Additionally, other variables like switching to 1/365 day premium accounting method and higher frequency of natural calamities during the period, have also contributed to high claims. Though the underwriting performance is expected to improve in the long term because of significant correction in pricing in group health and fire segments, over the medium term - it is expected to remain under pressure.

*** Moderation in profitability metrics posing pressure on capital position and profitability**

Overall profitability has been constrained by high underwriting losses. For fiscal 2019 and the first half of fiscal 2020, United India Insurance reported an underwriting loss of Rs 4,291 crore and Rs 2,497 crore, respectively. This deficit generated at underwriting level resulted in a net loss of Rs 1878 crore and Rs 1091 crore for the respective periods. Investment income, which has been a key driver for profitability historically, remained stable however, its impact on the overall earnings was offset by moderated underwriting performance. Due to moderation in profitability, United India Insurance's capital position has been under constrained - reflected in a decline in reported networth to Rs 1854 crore as on September 30, 2019 from of Rs 3392 crore , a year ago. Even after considering the un-booked gains from the investments, the adjusted net worth stood at Rs 4084 crore as against Rs 7,375 crore on September 30, 2018. This impact on capital position has led to a decline in solvency margin. As on September 30, 2018, the company reported solvency ratio of 1.53x. However, this solvency ratio included 75% of fair value change (lowest of last 5 years). A year down the line, the company has reported a solvency ratio of 1.05x (below regulatory stipulation of 1.5x) which includes the entire balance in fair value change account. In order to improve the underwriting performance, the management is undertaking various measures to improve underwriting performance such as significant correction in pricing across segments and reduction in volumes from weaker performing branches. Profitability nevertheless is expected to remain under pressure in the near to medium term.

Liquidity Superior

Almost 95% of the debt investments were in securities rated 'AA' or higher or in sovereign securities as on September 30, 2019. In addition, liquidity is comfortable with a large proportion of liquid investments which stood at Rs 14560 crore as of March 31, 2019. Government securities accounted for 40% of the investment portfolio, based on market value as on September 30, 2019. Liquid assets to technical reserves ratio remains adequate at 62% and 64% on September 30 and March 31, 2019, respectively.

Outlook: Negative

United India Insurance's underwriting performance is expected to remain weak over the near to medium term, thereby constraining its overall profitability, capitalization and solvency position. Nonetheless, the company's credit risk profile remains centrally driven by expectation of strong and continued support from the Gol given the company's high strategic importance to the latter, and is supported by its established market position in the Indian general insurance industry and sustenance in its sound portfolio quality. The rating on the subordinated debt instrument also factors in the regulatory forbearance granted to United India Insurance.

Rating Sensitivity factors

Upward factors

- * Revival in reported solvency ratio to above 1.5 times (excluding balance in fair value change account) and maintenance of it at above regulatory stipulation on a steady state basis.
- * Substantial and sustained improvement in underwriting performance, leading to restoration in overall earnings profile and networth.

Downward factors

- * Continued moderation in underwriting performance, leading to an adverse impact on profitability and solvency margin remaining below 1.5 times for a prolonged period of time.
- * A sizeable reduction in the extent of ownership or strategic importance, to Government of India

About the Company

United India Insurance is India's second-largest non-life insurance company. Wholly owned by Gol, the company commenced operations in 1938 and has a track record of over 75 years. On nationalisation of the general insurance business in 1972, it became one of the four subsidiaries of General Insurance Company of India (GIC). Later, in December 2000, the Subsidiaries of the General Insurance Corporation (GIC) of India were restructured as independent companies and GIC became a National Reinsurer United India Insurance has its head office in Chennai and has over 2000 offices across the country.

Key Financial Indicators

		H1 2020	2019	2018
Gross direct premium written	Rs crore.	7967	16,420	16,757
Profit/ (loss) after tax	Rs crore	(1091)	(1878)	1,003
Combined ratio	%	139.8%	134.2%	120.7%
Solvency ratio	Times	1.05#	1.52*	1.54

*includes 75% of fair value change balance lowest reported during last 5 years (i.e. from fiscal 2013 to fiscal 2018)

#includes 100% of fair value change balance lowest reported during last 5 years (i.e. from fiscal 2014 to fiscal 2019)

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Rating Assigned with Outlook
INE346Z08011	Subordinated Debt	2-Feb-18	8.25%	2-Feb-28	900	CRISIL AAA/Negative
NA	Financial Strength Rating	NA	NA	NA	0	AAA/Negative

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Financial Strength Rating	LT	0.00	AAA/Negative			30-01-19	AAA/Stable	25-01-18	AAA/Stable		--	--
Subordinated Debt	LT	900.00 31-01-20	CRISIL AAA/Negative			30-01-19	CRISIL AAA/Stable	25-01-18	CRISIL AAA/Stable	29-12-17	CRISIL AAA/Stable	--

All amounts are in Rs.Cr.

Links to related criteria

[Rating Criteria for General Insurance Companies](#)

[CRISILs criteria for Hybrid Issuances of General Insurance Companies](#)

[Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Krishnan Sitaraman Senior Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 8070 krishnan.sitaraman@crisil.com</p> <p>Ajit Velonie Director - CRISIL Ratings CRISIL Limited D:+91 22 4097 8209 ajit.velonie@crisil.com</p> <p>Vani Ojasvi Rating Analyst - CRISIL Ratings CRISIL Limited D:+91 22 6172 3560 Vani.Ojasvi@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

CRISIL PRIVACY

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way. CRISIL or its associates may have other commercial transactions with the company/entity.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com.

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL