

November 14 2022

The Oriental Insurance Company Ltd.: Rating downgraded to [ICRA]AA+ from [ICRA]AAA; outlook remains Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	750.00	750.00	[ICRA]AA+ (Negative); downgraded from [ICRA]AAA (Negative)
Issuer Rating	-	-	[ICRA]AA+ (Negative); downgraded from [ICRA]AAA (Negative)
Total	750.00	750.00	

*Instrument details are provided in Annexure I

Rationale

The rating downgrade reflects The Oriental Insurance Company Limited's (OICL) weak solvency profile, which is expected to deteriorate further unless supported by a sizeable equity infusion by the Government of India (GoI). The solvency ratio was previously supported by the regulatory dispensation allowing the inclusion of fair value change account (FVCA)¹ while computing the same. OICL's solvency ratio stood at 0.10 times (excluding FVCA) as on June 30, 2022 and remains below the regulatory requirement of 1.50 times. It has applied to the regulator for the inclusion of 100% FVCA for solvency calculation; however, even considering this, the solvency stood at 1.41 times as on June 30, 2022. Further, the solvency profile is likely to be adversely impacted by the wage revision announced recently in October 2022 by the GoI for all public sector general insurers. This shall result in high losses for FY2023 and the company's ability to meet the solvency ratios (including 100% FVCA) will be contingent on a sizeable equity infusion from the GoI. The regulatory capital requirements will increase if the regulator allows a lower inclusion of FVCA.

The rating continues to factor in OICL's sovereign ownership (GoI holds 100%), demonstrated capital support and the expectation of continued support from the GoI in future. Although the GoI infused Rs. 1,200 crore in OICL in FY2022, it incurred a significantly higher net loss of Rs. 3,115 crore in FY2022 due to the weak underwriting performance. As a result, its solvency profile weakened further despite the capital infusion. High Covid-19 claims in the health segment, coupled with increasing motor claims, led to the weaker underwriting performance.

OICL has a regulatory forbearance specific to the solvency requirements allowed by Insurance Regulatory and Development Authority of India (IRDAI) for the entire tenure of the instrument. Under this, it can service the debt instrument even if the solvency ratio is below the minimum regulatory requirement. The rating also factors in OICL's position as one of the leading players in the domestic general insurance industry. The outlook on the rating remains Negative, given our expectation of sizeable losses in FY2023, leading to high dependence on capital infusions from the GoI to meet the regulatory capital requirements.

Key rating drivers and their description

Credit strengths

Sovereign ownership – OICL is wholly owned by the GoI. ICRA expects the company to continue receiving strong support from the GoI. Considering the extremely low insurance penetration in India, the role of Government-owned insurers, such as OICL, becomes imperative. Further, GoI support is evidenced from the capital infusion of Rs. 9,950 crore (OICL received Rs. 3,170

¹ Unrealised gains on equity investments

crore) and Rs. 5,000 crore (OICL received Rs. 1,200 crore) in FY2021 and FY2022, respectively, across three public sector general insurance companies.

Established market player with long operating history – OICL has a long operating history with a recognised brand value in North India. It is the fifth largest player in the general insurance industry with a market share of 6.7% in terms of gross direct premium written (GDPW) in FY2022 (6.7% in FY2021). While the company has a presence in all major segments, the health and motor segments continued to account for a significant share of the GDPW at 48% and 25%, respectively, in FY2022 compared to 40% and 30%, respectively, in FY2021. OICL's fire insurance business increased gradually to 14% of the GDPW in FY2022 from 8% in FY2019.

The company plans to diversify and reduce its high loss portfolio and grow selectively in the motor portfolio. It has discontinued the direct underwriting of the crop business from FY2021 and is currently acting as a co-insurer with Agriculture Insurance Company (AIC). OICL has a strong agency channel with ~36% of its business being sourced through individual agents. Further, direct sourcing accounts for 30% of the business with a wide presence across 1,452 branches.

Credit challenges

Weak solvency levels; largely dependent on Govt's capital infusions – In the absence of regulatory approval for the inclusion of FVCA, OICL's reported solvency ratio weakened to 0.10 times as on June 30, 2022 from 1.32 times (after including 65% of FVCA) as on March 31, 2021. The solvency profile weakened despite the capital infusion by the Govt due to the weak underwriting performance and the significantly higher net loss of Rs. 3,115 crore in FY2022. Further, the company had a significant amount of 90+ receivables from its co-insurance and reinsurance arrangement, which is disallowed for the calculation of the solvency ratio.

The Govt announced a retrospective wage revision in October 2022, for which OICL will need to provide around Rs. 2,500 crore in FY2023 towards past arrears as well as future retirement benefits. This is expected to weaken its solvency profile further. The company has applied to the regulator for the inclusion of 100% of the FVCA for solvency purposes. Post approval, the solvency will improve to 1.51 times as on March 31, 2022 and 1.41 times as on June 30, 2022. Given the expectation of high net losses in FY2023, ICRA estimates that OICL will require sizeable equity infusion (~Rs. 2,500-3,000 crore) from the Govt to meet the regulatory solvency requirements after 100% inclusion of the FVCA.

Weak underwriting performance – OICL witnessed higher Covid claims in FY2022, in line with the industry. This, coupled with increasing motor claims, led to a weaker underwriting performance. The combined ratio increased to 144% in FY2022 from 134% in FY2021. OICL reported a net loss of Rs. 92 crore in Q1 FY2023 compared to a net loss of Rs. 597 crore in Q1 FY2022. It reversed Rs. 515 crore of gratuity liability (AS-15) in Q1 FY2023, leading to negative management expense. Consequently, despite the higher claims ratio in Q1 FY2023, the total combined ratio improved to 117% in Q1 FY2023 from 140% in Q1 FY2022. ICRA expects the net loss to widen in FY2023, given the impact of the wage revision.

Liquidity position: Adequate

In FY2022, the company received net premium of Rs. 12,300 crore and its net claims paid stood at Rs. 11,986 crore. In addition, OICL's liquid assets were estimated at Rs. 24,021 crore (sum of total investments less haircuts estimated by ICRA plus cash and bank balances plus net due from insurance companies) as on June 30, 2022. Interest repayment, which is serviceable through shareholders' funds, is Rs. 66 crore for FY2023, while the company had 91% of the shareholder investments (Rs. 623 crore) deployed in liquid investments as on June 30, 2022. ICRA, however, does not foresee any liquidity risk in the near term for servicing the policyholders' claims or the interest obligations.

Rating sensitivities

Positive factors – The outlook may be revised to Stable 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 on a dilution in OICL's strategic role and importance to the GoI or on inadequate capital infusion by the GoI.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Issuer Rating Methodology for General Insurance Companies Rating Approach – Hybrid Instruments Issued by Insurance Companies Rating Approach – Implicit Parent or Group Support
Parent/Group support	The rating factors in OICL's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to support OICL with capital infusions.
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of OICL. However, in line with ICRA's limited consolidation approach, the capital requirement of OICL's key subsidiaries/associates/joint ventures, going forward, has been factored in.

About the company

The Oriental Insurance Company Limited (OICL), incorporated on September 12, 1947, is a general insurance company fully owned by the Government of India. It offers general insurance services across a variety of segments. With its head office in New Delhi, OICL has 29 regional offices and 1,800+ operating offices with 13,500+ employees. OICL's gross direct premium written was Rs. 14,020 crore in FY2022 and it reported an underwriting loss of Rs. 5,289 crore and a net loss of Rs. 3,115 crore.

Key financial indicators (audited)

OICL	FY2021	FY2022	Q1 FY2022	Q1 FY2023
Gross direct premium	12,747	14,020	3,209	3,727
Total underwriting surplus/(shortfall)	(3,729)	(5,289)	(1,044)	(509)
Total investment + Trading income	2,410	2,297	478	449
PAT	(1,525)	(3,115)	(597)	(92)
Net worth (excluding FVCA)	2,142	524	1,620	507
Total technical reserves	20,980	22,550	22,070	23,448
Total investment portfolio	23,985	27,347	25,636	27,589
Total assets	34,243	35,289	37,518	35,162
Return on equity	(22.1%)	(50.3%)	(35.7%)	(6.2%)
Gearing (times)	0.35	1.43	0.46	1.48
Combined ratio	133.8%	143.5%	139.7%	116.9%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History For the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Nov 14, 2022	Nov 17, 2021	Nov 19, 2020	Mar 25, 2020	May 15, 2019
1	Subordinated debt programme	Long term	750.0	750.0	[ICRA]AA+ (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
2	Issuer Rating	-	-	-	[ICRA]AA+ (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	-	-

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/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE06GZ08015*	Subordinated debt	Mar-18-2019	8.80%	Mar-18-2029	750	[ICRA]AA+ (Negative)
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AA+ (Negative)

Source: Company

*The company has a call option exercisable five years from the date of allotment on March 18, 2024. The extent of the capital infusion and the resultant solvency will drive its ability to exercise the call option

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 levels stipulated by the regulator²
- 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

OICL 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

Company Name	Ownership	Consolidation
The Industrial Credit Company Ltd.	100.00%	Limited Consolidation
India International Insurance Pte Ltd	20.00%	Limited Consolidation
Health Insurance TPA of India Ltd.	23.75%	Limited Consolidation

² 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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Branches



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