



HDFC ERGO General Insurance Company Limited

Instrument	Amount	Rating Action
		Jan 2012
Claims Paying Ability	-	iAAA reaffirmed

ICRA has reaffirmed iAAA (pronounced as I triple A) rating, indicating highest claims paying ability of HDFC ERGO General Insurance Company Limited (HDFC ERGO). The rating indicates fundamentally strong position and prospect of meeting policyholder obligations is the best. The rating factors in the strong parentage of HDFC ERGO, namely HDFC (rated [ICRA]AAA with stable outlook and [ICRA]A1+) for the local knowledge and distribution and ERGO (primary insurance entity of Munich RE – rated Aa3 by Moody's Investors Service) for underwriting and reinsurance aspects. HDFC ERGO has a strong management team led by experienced professionals, with strong focus on systems and processes in critical areas such as underwriting, reinsurance and claims management. This coupled with ERGO's international experience as a multi-liner with strong skills in all relevant insurance lines and segments of insurance business lends strong foundation for HDFC ERGO's business success. The rating also derives comfort from its parents' letter of comfort to support the entity by way of capital infusions or such other methods of funding to help the company meet its financial and statutory obligations in a timely manner. Going forward, achieving scale and size while managing costs, building quality portfolio with acceptable level of risk and focus on customer service and claims settlement will be critical in maintaining the rating profile of the company.

During the last four years, the market share (excl. Specialised insurance companies ECGC and AIC) for HDFC ERGO has improved from 0.8% in FY08 to 3.0% in FY11 and further to 3.4% as on Dec-11. In Sep-11, the company became the fourth largest private sector general insurer and continues to hold that position as on Dec-11. During the initial phase of the JV, the growth was driven largely by corporate business but over the last few years, HDFC ERGO has also built a robust retail franchise drawing support from its key bancassurance partner (HDFC Bank) and promoter (HDFC Ltd) leading to a more balance and diversified portfolio composition. Corporate lines of business contributed 41% in 2010-11 (as compared to 52% in 2009-10) while the remaining came from retail lines. Going forward, the company is expected to maintain an equal business mix between Corporate, Motor, and Health & Personal Accident businesses. The underwriting performance continues to get impacted by the third party motor pool losses. However, HDFC ERGO has been able to contain the underwriting losses, which can be attributed to its tight underwriting controls and efficient claims management. Strong underwriting coupled with efficient risk management systems has helped HDFC ERGO improve on its loss ratio* (incl. Motor Pool) from 99% in FY10 to 88% in FY11 and further to 81% in H1FY12. Aided by lower loss ratio and management expenses, the combined ratio† (incl. Motor Pool) decreased from 135% in FY10 to 119% in FY11 and further to 107% in H1FY12. The company incurred net loss of Rs. 36.4 crores for FY 11. However, the company has report a net profit of Rs.32.4 crore in H1FY12. The promoters infused Rs. 175 crore in FY11 for planned expansion of business and further infused Rs.37 crore on account of the impact of the higher provisioning on TP motor pool. Till Dec-12, the promoters have infused Rs. 58 crore and are expected to further infuse capital on account of higher provisioning on TP motor pool upto March 2012. Going forward, the company is likely to post profits on a sustainable basis as they will not expand aggressively beyond current levels and look for profitable growth. The regulatory solvency ratio for HDFC ERGO remained comfortable at 1.67 times as on 30-Sep-11.

* Net incurred Claims/ Net Earned Premium

† (Net Claims Incurred + Operating Expenses)/(Net Earned Premium)



Company Profile

HDFC ERGO General Insurance Company Limited is a 74:26 joint venture between HDFC Limited, India's premier housing finance institution and ERGO International AG, the primary insurance entity of Munich Re Group. The company offers complete range of general insurance products ranging from Motor, Health, Travel, Home and Personal Accident in the retail space and customized products like Property, Marine and Liability Insurance in the corporate space. HDFC ERGO has been expanding its presence across the country and is today present across 71 cities with 80 branch offices with an employee base of over 1100 professionals. HDFC Ltd., a financially strong entity (rated [ICRA]AAA with stable outlook), is India's premier housing finance entity in existence for over 30 years. With a presence in banking, insurance and asset management, the HDFC group is an important part of the Indian financial services. During the year ended March 31, 2011 HDFC reported a net total income of Rs. 12,878 crore and had funds employed of Rs. 137,727 crore. The company's profit after tax (PAT) stood at Rs. 3,535 crore during the year ended March 31, 2011 as compared with Rs. 2,826 crore during the year ended March 31, 2010. With premium income amounting to €20.13bn in 2010, ERGO is one of the major insurance groups in Europe. Worldwide, ERGO is represented in more than 30 countries and concentrates on Europe and Asia. In Europe, ERGO is no. 1 in the health and legal expenses insurance segments, and in its home market of Germany it is among the market leaders.

Recent Results

During H1 2011-12 (including Motor Pool), HDFC ERGO wrote Gross Written Premium of Rs. 1001 crore (growth of 46 % over H1 FY 11) with earned net premium of Rs.421.4 crore (Rs. 291.1 crore for H1FY11) and reported an underwriting loss of Rs.29.0 crore (loss of Rs. 59.1 crore for H1FY11) and a net profit of Rs. 32.4 crore (net loss of Rs. 19.1 crore for H1FY11).

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