Canara HSBC Life Insurance Company Limited (Erstwhile known as Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited)

March 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the issuer rating of Canara HSBC Life Insurance Company Limited continues to factor in its strong parentage marked by high degree of support, synergies from access to bancassurance tie-ups with promoter banks and brand linkages from its promoters, experienced management, high solvency ratio, and consistent persistency ratios.

The rating also derives strength from strong liquidity position with individual positive mismatches in all time buckets per asset liability mismatch (ALM) statement as on December 31, 2023, track record of controlled operating costs and profitable operations, strong systems and processes, and growth prospects for the insurance industry.

However, rating strengths are, partially offset by the company's modest market position with 2.7% share (based on new business premium) in the private life insurance segment for FY23 (refers to April 1 to March 31).

Rating sensitivities

Negative factors - Factors that could individually or collectively lead to negative rating action / downgrade:

- Diminishing shareholder support
- Weakening capitalisation profile with solvency going below 2x on sustained basis.
- Moderating premium written, persistency and operating expenses, resulting in impact on underwriting profitability.

Analytical approach:

Standalone; expecting continuous support from Canara Bank, given the shareholding, business synergies, and brand, management, and operational linkages.

Outlook: Stable

The outlook reflects CARE Ratings Limited's (CARE Ratings) view that the company will continue its growth momentum and steadily increase market share, while maintaining profitability and solvency levels. The outlook also reflects the expectation of maintaining credit quality and yield of portfolio investments, while managing maturity profile to meet liabilities to policyholders.

Key strengths

Strong shareholders with high degree of synergies and brand linkage with the company

The company is a joint venture (JV) between Canara Bank (Tier II bonds rated 'CARE AAA Stable') and HSBC Insurance (Asia Pacific) Holdings Limited (HSBC), which account for 51% and 26% stake, respectively, in the company as on December 31, 2023. Punjab National Bank (PNB, Tier II bonds rated 'CARE AAA Stable'), holds 23% stake as an investor (due to IRDAI regulation that states that equity stake up to 25% in an insurer can now be classified as investment category instead of promoter category from earlier threshold limit of 10%). Post the new regulation, PNB does not plan to divest its stake in the company. While no new business is generated from PNB's bancassurance channels, it contributed to around 17% renewal business in FY23.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The company continues to benefit from brand name and branch strength of its promoters – Canara Bank and HSBC. Canara Bank contributed to 51.7% in FY23 and HSBC contributed 11.9% to the total premium earned in FY23.

Experienced board members and management team

The company's overall operations are governed by a 12-member Board of Directors, which includes representatives of key shareholders: Canara Bank, HSBC Holdings and PNB. The company has an experienced management team headed by Anuj Mathur, Chief Executive Officer of the company. He is ably supported by a team of experienced professionals, who have considerable experience in the insurance sector.

Strong solvency position

Solvency level is comfortable at 2.20x as of December 2023, which is well above the minimum regulatory levels of 1.5x. End-December 2023, the available solvency margin (ASM) stood at ₹1,983 crore as against the required solvency margin (RSM) of ₹902 crore. The company's solvency ratio is largely driven by shareholder's fund given its track record of profitable operations over the past 11 years starting FY13. The company has also taken re-insurance for covering risk beyond a threshold limit to cover for catastrophic risks, which helps avoiding high claims and conserving capital. However, there is a declining trend in solvency levels over the past couple of years due to increase in scale of operations and rising share of non-linked non-participating products, which have higher required solvency margin. The company's capital requirement (RSM) is increasing with the declining share of linked life products (26.2% of the total premium in 9MFY24 as against 34.0% in FY21), which are relatively less capital- intensive, as much of the risk is borne by investors. Solvency margin is expected to improve by end of the financial year. Going forward, the company plans to maintain solvency above 2x.

Consistent performance over the years

The company's premium income grew y-o-y by 22.2% and by three-year compounded annual growth rate (CAGR) of 22.2% for FY23. Non-linked non-participating life and linked-life majorly contributed to the growth, which grew by 23.8% for FY23. In 9MFY24, these segments grew at 16% and contributed 74% of the total premium income. There is a higher demand for Non-linked non-participating life products since these plans assure fixed sum, are completely insulated from market risks, are available at low cost to customers and have a longer tail.

The company has been generating profits since FY13. Its profitability improved substantially, as it reported profit after tax (PAT) of ₹91.9 crore in FY23 compared with ₹10.3 crore in FY22 due to higher gross written premiums. In 9MFY24 also, the reported PAT was high at ₹77.09 crore improved from ₹61.5 crore in 9MFY23 (including ₹125 crores which were transferred to balance sheet) due to rise in investment income. The company operates on the bancassurance model and has an exclusive access its promoters' network. The company's operating costs are low, as it benefits from the bancassurance model with promoters. The operational expenses incurred, and commissions paid are relatively less under this model. Infrastructure and operational expenses are also lower as bank's branches are used as distribution centres. However, operating expenses increased in 9MFY24 as reflected in the opex to net premium earned ratio which increased from 11.90% for FY23 to 15.05% for 9MFY24. The company has been investing a lot in alternate channels and technology. Customer acquisition cost is increasing which has increased operating expenses. Going forward, CARE Ratings expects operating expenses to remain high.

Healthy persistency ratio

The company's persistency ratios company are healthy and have been improving over the years, which indicates higher renewal premiums and a strong consumer franchise. It also indicates longer tenure of policy in force, which enables the company to recover costs and make profit over the insurance contract's life. The company has been investing in technology and reach for its customers to maintain a high persistency ratio.

In 9MFY24, for regular premium / limited premium payment for individual category, one-year persistency (measured on 13th month) was 79.6% compared with 75.3% in FY23, while the fifth year (measured on 61st month) stood at 54.6% in 9MFY24 compared with 52.0% in FY23.

Good asset quality and liquidity of investment book

Overall, the company's asset quality remains strong, by investing its funds in accordance to regulatory norms prescribed by IRDAI, and investment policy as approved by the company's Board. The company's non-linked funds (investments supporting non-linked policy portfolio and shareholders' funds) are largely invested in fixed-income securities, ensuring less risk and better liquidity. As on December 31, 2023, the company had total funds (shareholders plus policyholder's) of ₹35,430 crore. The non-linked investments of ₹20,279 crore was largely invested in central and state government securities (63%) and AAA rated corporate securities (34%), limiting credit risks. A substantial portion of the company's investments are readily marketable, extending it ample liquidity support. Asset quality is good with nil net non-performing assets (NNPAs) in the investment book as of December 2023.

Adequate systems and controls

The major risks for the company include strategic (product, people, channel, and regulatory risks), insurance (mortality, discontinuity, expense risks), operational risks (fraud, business continuity, process/system failure risks), and investment market (credit, equity, interest rate risk) risks. The company undertakes regular risk assessment to mitigate them and has required control mechanisms in place. It has an internal audit department to ensure that proper and adequate systems and procedures are in place and being followed. Concurrent audit of investment operations is conducted by an independent firm, in line with the IRDAI regulations. Peer review of actuarial assumptions is also conducted by an independent third party.

To reduce risk from frauds, the company has parameters for writing risks (per the Underwriting Policy). The company has also entered treaty agreements and facultative agreements with reinsurers for mitigating the risk. The company follows investment limits as defined under the IRDAI guidelines to mitigate the investment risks and has defined internal guidelines allocation of limits for maximum exposure in a single entity/group' bonds/equity.

Key weaknesses

Moderate scale of operations in competitive life insurance industry and high dependence on bancassurance channel

The company started operations in 2007 and has moderate scale of operations with an investment book of ₹35,430 crore at end-December 2023. Its market standing also remains moderate, being the 9th-largest private life insurance player with a market share of about 2.7% (based on new business premium income) end-FY23 among 23 private life insurers. The company has moderate geographical diversification with Karnataka contributing 20.0% of total premium generated in 9MFY24 followed by Maharashtra (12.9%). The company has dependency on bancassurance channel for business sourcing. Through bancassurance channel, the company generated 93% individual new-business segment in 9MFY24 (90% in FY23). In group new-business segment, the bancassurance channel contributed 56% of the total premium in 9MFY24 (24% in FY23), while rest was generated through direct channels. The company is looking to expand to alternate channels and has been investing on it for the last 3-4 years. Going forward, the proportion of alternate channel is expected to steadily increase in the distribution mix.

Liquidity: Strong

The company uses cash flow matching for assessing ALM position of funds. Cash flow matching is undertaken quarterly and shared in the executive level asset liability management group forum, where asset and liability cash flows are shown on a year-on-year basis to identify potential mismatching between asset and liability cash flows and take further corrective action.

Furthermore, liquidity is supported by a high portion of non-linked funds in liquid government securities (63%). For linked portfolio, liquidity risk is low as investments are marked-to-market and volatility risks are borne by policyholders.

Applicable Criteria

Policy on default recognition

Rating Outlook and Credit Watch

Financial ratios- Insurance sector

Insurance Sector

Issuer Rating

Notching by Factoring Linkages in Ratings

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Insurance	Life insurance

CANARA HSBC Life Insurance Company Limited, incorporated on September 25, 2007, is licensed by the Insurance Regulatory & Development Authority of India (IRDAI) to conduct life insurance business in India. The company commenced operations in June 2008. It is a JV between Canara Bank (51%) and HSBC Insurance (Asia Pacific) Holdings Limited (26%) It is engaged in life insurance and pension business.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9M FY24 (A)
Net premium earned	5,824	7,030	4,438
PAT	10	91	77
Interest coverage (times)	NM	NM	NM
Total Assets	27,215	31,310	36,459
Net NPA (%)	0.0	0.0	0.0
ROTA (%)	0.0	0.3	0.3*

A: Audited UA: Unaudited;
Note: 'these are latest available financial results'; NM: Not meaning full as outstanding debt is nil
*annualized

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of rated instruments/facilities is given in Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE AAA; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (21-Mar-23) 2)CARE AAA; Stable (26-Dec-22) 3)CARE AAA (Is); Stable (01-Apr-22)	-	1)CARE AAA (Is); Stable (31-Mar-21)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer Rating-Issuer Ratings	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 91 44 2850 1001 E-mail: pradeep.kumar@careedge.in	Sanjay Agarwal Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3582 E-mail: sanjay.agarwal@careedge.in Gaurav Dixit Director **CARE Ratings Limited** Phone: +91 -120–4452002 E-mail: gaurav.dixit@careedge.in Neha Kadiyan Associate Director **CARE Ratings Limited** Phone: +91-120-4452022 E-mail: neha.kadiyan@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in