CareEdge RATINGS

Canara HSBC Life Insurance Company Limited

April 07, 2025

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 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 shared brand name.

The rating also favourably factors in its strong liquidity position, experienced management and a comfortable solvency ratio.

However, rating strengths are partially offset by the company's modest market position with a 1.83% market share (based on new business premium for FY24) in the private life insurance segment and evolving regulatory landscape in insurance sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Not applicable

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

- Material reduction in the shareholding of Canara Bank and impact on bancassurance partnerships and/or weakening in the credit profile of Canara Bank.
- Weakening capitalisation profile with solvency going below 2x on a sustained basis.
- Deterioration in market share and operating profitability on a sustained basis.

Analytical approach:

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

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects Canara HSBC Life Insurance to remain strategically important to Canara Bank and receive need-based capital support to profitably scale up its business.

Detailed description of key rating drivers:

Key strengths

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

The company is a joint venture (JV) between Canara Bank (rated 'CARE AAA Stable') and HSBC Insurance (Asia Pacific) Holdings Limited (HSBC), which account 51% and 26% stake, respectively, in the company as on December 31, 2024. Punjab National Bank (PNB, rated 'CARE AAA Stable'), holds 23% stake as an investor. By virtue of parentage, the company benefits from financial, managerial, and operational support, including access to significant retail branch network.

The share of business derived from Canara Bank ecosystem (including subsidiaries and RRBs) stood at 68% of the company's gross business premium for FY24 (PY: 57%), while HSBC contributed 13% to the company's gross premium for FY24 (PY: 12%).

The company also benefits from managerial oversight from its promoters. The company's overall operations are governed by a 11-member board, which includes representatives of key shareholders: Canara Bank and HSBC Holdings. The company is headed by Anuj Mathur, the company's MD & CEO. He is ably supported by a seasoned senior management team, who have extensive experience in the insurance sector and vintage in the company.

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

CARE Ratings notes Canara Bank, promoter of Canara HSBC Life Insurance, has been accorded approval for initiating the process of diluting 14.50% stake of the Bank in its subsidiary - Canara HSBC Life Insurance Company Limited by listing the company in Stock Exchanges through Initial Public Offer (IPO). Post IPO, Canara HSBC Life Insurance shall no longer remain subsidiary of Canara Bank. Currently, Canara HSBC Life Insurance is in process of filing Draft Red Herring Prospectus (DRHP) with market regulator.
CARE Ratings shall monitor developments in this regard and shall assess the impact of this on the company's business and credit profile considering its linkages with Canara Bank.

Comfortable solvency levels
The company's solvency levels stood comfortable at 2.15x as on December 31, 2024 (PY: 2.20x), over and above the minimum regulatory requirement of 1.5x.

While the solvency remains comfortable, there has been a decline observed over the last few years due to growth in business and the company's focus on non-participating products which have a longer tail, hereby having relatively higher required solvency margin (RSM). CARE Ratings expects the company to maintain solvency above 2.00x in the near-to-medium term which shall remain a key monitorable.

Moderate profitability metrics
The company's new business premium (NBP) grew at a 4-year compound annual growth rate (CAGR) of 17.39% during FY20-FY24 which remained at par with industry growth for private players. However, the NBP for FY24 declined by 21.94% year-on-year primarily due to base effect of higher group single premium policies sold in FY23. The decline was also due to modest growth in individual policies in FY24, given the shift between product segments caused by market dynamics. For 9MFY25, while the growth rebounded, it is expected to remain flat for the fiscal year 25 due to restricted demand for linked policies for Q4 following equity market moderation.

Product mix wise, the share of linked and participating products together grew to 45.64% of the company's gross premiums for FY24 (PY: 41.98%) and further grew to 50.85% for 9MFY25 due to higher demand for linked products led by equity market performance. As a result, the VNB margins (%) moderated in FY24 and 9MFY25 due to lower margins in linked segment compared to traditional segments. Going forward, the company intends to maintain the share of non-par segment to total premiums at 50%.

In terms of expenses, the overall expense ratio increased to 20.5% in FY24 (PY: 18.7%) as a percentage of net premium earned (NPE). While the expense increased, the claims ratio remained range bound at 45.4% (PY: 43.8%). The overall profitability, however, was supported by healthy investment income. Nevertheless, the return on net worth (RONW) continues to remain modest at 8.2% for FY24 (PY: 6.9%) and 7.8% for 9MFY25; annualised (PY: 7.9%), given the impact on margins.

Key weaknesses

Moderate scale of operations and high dependence on bancassurance channel
The company started operations in 2008 and has moderate scale of operations with an investment book of ₹40,013 crore at end-December 2024. Its market standing also remains moderate, being the 12th-largest private life insurance player with a market share of ~1.83% (based on new business premium income) end-FY24 among 25 private life insurers.

The company has high dependency on bancassurance channel for business sourcing. Through bancassurance channel, the company generated 92% individual new-business segment in 9MFY25 (93% in FY24). In group new-business segment, the bancassurance channel contributed 80% to the total premium in 9MFY25 (55% in FY24), while the rest was generated through direct channels. While the company intends to expand in direct channels, the share of the banca channel continues to remain high leading to business concentration which in turn increases its susceptibility to growth disruptions.

Changing regulatory dynamics and competitive industry landscape
Long-term growth prospects for Indian life insurance sector remains robust with low penetration of life insurance as a percentage of GDP in India supported by strong socio-economic growth drivers. As Indian life insurance sector continues to evolve, the sector has been witnessing slew of regulatory changes. Some key regulatory changes include increase in surrender values of life insurance policies, expected introduction of composite licence and risk migration to risk-based capital framework in the medium term. While these measures are expected to improve product proposition and propel the Indian insurance industry towards greater

efficiency and effectiveness leading towards the vision of Insurance for All by 2047, it is also expected to increase competition in the industry and lead to changes in operating models/technology adoption in the medium term.

Liquidity: Strong
The company's liquidity remains strong with majority investments in fixed income securities (largely central government bonds), listed equity shares and money market instruments, which are readily marketable. Of the total non-linked investments of ₹21,650 crore as on December 31, 2024, ~66% were invested in central/state securities and ~31% in AAA rated debt securities. Against these, the peak net claims paid in last 5 years stood at ₹4,274 crore (for 9MFY25). Additionally, the cash and bank balances stood at ₹248 crores.

For FY24, the company continues to have positive operating cashflows; the company's cash inflows (premiums received + investment income) stood at ₹8,692 crore against cash outflows (claim payouts + total expenses) of ₹4,648 crore, indicating a healthy liquidity buffer to meet these obligations.

Assumptions/Covenants
Not applicable

Environment, social, and governance (ESG) risks
Not applicable

Applicable criteria
Definition of Default
Rating Outlook and Rating Watch
Life Insurance Sector
Issuer Rating
Notching by Factoring Linkages in Ratings

About the company and industry

Industry classification

Macroeconomic 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, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Net premium earned	7,030	6,933	5,147
PAT	91	113	85
Tangible net worth	1,353	1,419	1,485
Policy liabilities	15,609	19,726	20,740
Solvency ratio (times)	2.52	2.13	2.15

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: 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 and 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 2024-2025	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
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (26-Mar-24)	1)CARE AAA; Stable (21-Mar-23) 2)CARE AAA; Stable (26-Dec-22) 3)CARE AAA (Is); Stable (01-Apr-22)	-

LT: Long term

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

Annexure-4: Complexity level of instruments rated
Not applicable

Annexure-5: Lender details

To view 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: 044-28501001 E-mail: pradeep.kumar@careedge.in	Sanjay Agarwal Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3500/582 E-mail: sanjay.agarwal@careedge.in Priyesh Ruparelia Director **CARE Ratings Limited** Phone: +91-22-6754 3593 E-mail: priyesh.ruparelia@careedge.in Geeta Chainani Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3447 E-mail: geeta.chainani@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.

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