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

March 21, 2023

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

The issuer rating of Canara HSBC Life Insurance Company Limited factors in strong parentage marked by high degree of support, synergies and brand linkages from its promoters enjoyed by the company, experienced management, high solvency ratio and consistent persistency ratios.

The rating also derives strength from strong liquidity position with individual positive mismatches in all the time buckets as per asset liability mismatch (ALM) statement as on December 31, 2022, track record of controlled operating costs and profitable operations, strong systems and processes and growth prospects for the insurance industry. These rating strengths are, however, partially offset by the company's modest market position with 2.5% share (based on individual weighted premium income) in the private life insurance segment for FY22 (refers to the period April 1 to March 31).

Rating sensitivities

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

- Diminished shareholder support
- Weakness in the capitalisation profile with solvency going below 2x on sustained basis .
- Moderation in premium written, persistency, operating expenses resulting in impact on the underwriting profitability.

Analytical approach:

Standalone; expecting continuous support from Canara Bank given shareholding, brand linkage, business synergies, and 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 its market share, while maintaining its profitability and solvency levels. The outlook also reflects the expectation of maintaining the credit quality and yield of its portfolio investments along with managing the 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'), HSBC Insurance (Asia Pacific) Holdings Limited (HSBC), and Punjab National Bank (PNB, Tier II bonds rated 'CARE AA+ Positive'), and the shareholders hold 51%, 26% and 23% stake, respectively, in the company as on December 31, 2022.

PNB, vide its announcement dated March 01, 2023, has withdrawn from the divestment process of its stake in Canara HSBC Life Insurance Company Limited on account of the recent Insurance Regulatory & Development Authority of India (IRDAI) regulation. The new IRDAI regulation 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%. With this revised IRDAI regulation, PNB can now hold its 23% stake in Canara HSBC Life Insurance Company Limited as financial investment, thus complying with the regulatory requirement that a bank cannot be a promoter in more than one insurer. PNB already had 30% stake in PNB Metlife India Insurance Company Limited, while it had acquired 23% stake in Canara HSBC Life Insurance Company Limited, as a result of its government-mandated amalgamation with Oriental Bank of Commerce.

Since Q1FY23, the company stopped using brand name and branches of PNB given their planned divestment process. However, with aforementioned development, the management is planning to have arrangement with PNB for access to their branches for business sourcing.

[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 more than 50% of premium income earned in FY22. HSBC contributed 14.4% to the total premium earned in the same year.

Experienced board members and management team
The overall operations of the company are governed by a 12-member Board of Directors, which includes representatives of the key shareholders, viz., Canara Bank, PNB and HSBC Holdings. Furthermore, the company has an experienced management team headed by Anuj Mathur, who is the 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
The company's solvency reduced to 2.68x at end-December 2022 compared with 2.82x at end-March 2022 and 3.27x at end-March 2021; however, continues to remain well-above the minimum regulatory requirements of 1.5x. End-December 2022, the available solvency margin (ASM) stood at ₹1,967 crore as against the required solvency margin (RSM) of ₹734 crore. The solvency ratio for the company is largely driven by the shareholder's fund given its track record of profitable operations over the past 10 years starting FY13. In addition, the company has taken re-insurance for covering risk beyond a threshold limit and to cover for catastrophic risks, which not only helps in avoiding high claims but also helps in conserving the capital. The capital requirement (RSM) of the company is, however, increasing with declining share of linked products (23.6% of the total premium in 9MFY23 as against 44.8% in FY20), which are relatively less capital intensive as much of the risk is borne by the investors. Going forward, with the increasing share of non-linked non-participating products, the ability of the company to maintain healthy solvency would be crucial and will be a key rating sensitivity.

Consistent performance over the years
The company's premium income grew y-o-y by 15.1% and by three-year compounded annual growth rate (CAGR) of 19.1% for FY22. Furthermore, the y-o-y growth accelerated to 27.5% in 9MFY22, despite the closure of bancassurance tie-up with PNB effective April 2022.

Non-linked-non-participating-life and non-linked-non-participating-pension majorly contributed to the growth, which grew by three-year CAGR of 49.5% for FY22 and y-o-y 70.2% for 9MFY23. These two segments contributed 58.8% of total premium income in 9MFY23. There is higher demand for these products since these plans assure fixed sum, are completely insulated from market risks, are available at low cost to the customers and have a longer tail.

The company has been generating profits since FY13. The company reported low profit after tax (PAT) of ₹10.26 crore in FY22 compared with ₹94.67 crore in FY21 and ₹105.09 crore in FY20 due to higher claim pay-out owing to increased mortality rates during fatal COVID-19 second wave. The profitability is expected to improve to pre-COVID-19 level in FY23, as the impact of pandemic on mortality rate has eased. For 9MFY23, the reported PAT was low at ₹-63.98 crore (though improved from ₹-144.28 crore in 9MFY22). The surplus, which is to be transferred to profit and loss account post statutory audit, of ₹125.5 crore in 9MFY23 (compared with ₹75.5 crore in 9MFY22) will support the profitability for full year. The company operates on the bancassurance model and has an exclusive access to the network of its promoters. The operating costs for the company are low as the company benefits from the bancassurance model with the promoters, as the operational expenses incurred, and commissions paid are relatively less under the said model. Furthermore, the infrastructure and operational expenses are lower as bank branches are used as distribution centres.

Healthy persistency ratio
The persistency ratios of the company are healthy and have been improving over the years, which not only indicates higher renewal premiums but also a strong consumer franchise. Furthermore, it also indicates longer tenure of policy in force which enables the company to recover costs and make profit over the life of the insurance contract. The company has been investing in technology and reach, to reach out to its customers to maintain a high persistency ratio.

For FY22, for regular premium / limited premium payment for individual category, the one-year persistency (measured on 13th month) was 76.40% in 9MFY23 compared with 74.50% in FY22, while the fifth year (measured on 61st month) stood at 50.6% in 9MFY23 compared with 47.30%.

Good asset quality and liquidity of investment book
Overall, the company's asset quality remains strong with the company investing its funds in accordance with the regulatory norms prescribed by IRDAI and the investment policy as approved by the Board of the company. The company's non-linked funds (investments supporting both the non-linked policy portfolio and the shareholders' funds) are largely invested in fixed-income securities ensuring less risk and better liquidity. As on December 31, 2022, the company had total funds (shareholders plus policyholder's) of ₹29,329 crore. The non-linked investments of ₹16,182 crore was largely invested in central and state government securities (57%) and AAA rated corporate securities (33%), limiting the credit risks. A substantial portion of the company's investments are readily marketable, thereby extending it ample liquidity support. The asset quality of the company is good with nil net non-performing assets (NNPAs) in the investment book as of December 2022.

Adequate systems and controls
The major risks for the company are strategic risks (product, people, channel and regulatory risks), insurance risks (mortality, discontinuity, expense risks), operational risks (fraud, business continuity, process/system failure risks), and investment market risk (credit, equity, interest rate risk). The company, to mitigate these risks, undertakes regular assessment of the risks and has also put in place control mechanisms. The company 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. Also, peer review of actuarial assumptions is conducted by an independent third party.

To reduce the risk on account of fraud, the company has put in place various parameters for writing the risks (as per the Underwriting Policy). The company has also entered into treaty agreements and facultative agreements with reinsurers for mitigating the risk. Also, to mitigate the investment risks, the company follows the investment limits as defined under the IRDAI guidelines and has defined internal guidelines allocation of limits w.r.t. maximum exposure in a single entity/group' bonds/equity.

Key weaknesses

Moderate scale of operations in competitive life insurance industry along with high dependence on bancassurance channel
The company started its operations in 2007 and has moderate scale of operations with an investment book of ₹29,329 crore at end-December 2022. Furthermore, the market standing of the company also remains moderate, with it being the 10th-largest private life insurance player with a market share of about 2.5% (based on individual weighted premium income) end FY22 among 23 private life insurers. Further, the company has moderate geographical diversification with Karnataka contributing 19.9% of individual-new-business generated in 9MFY23 followed by Maharashtra (15.8%). The company has dependency on bancassurance channel for business sourcing. Through bancassurance channel, the company generated 92% of individual new-business segment in 9MFY23 (96% in FY22). In group new-business segment also, bancassurance channel contributed 22% of the total premium in 9MFY23 (29% in FY22), while rest was generated through direct channels.

Liquidity: Strong

The company uses cash flow matching for the purpose of assessing the ALM position of the various funds. The cash flow matching is undertaken at quarterly interval and shared in the executive level asset liability management group forum wherein the asset and liability cash flows are shown on a year-on-year basis to identify any potential mismatching between asset and liability cash flows and take any further corrective action, if required. Furthermore, the liquidity is supported by high portion of non-linked funds in liquid government securities (57%). For linked portfolio, the liquidity risk is low as the investments are marked-to-market and volatility risks are borne by policyholders.

Applicable criteria

Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Insurance Sector
Financial ratios – Insurance Sector
Issuer Rating
Factoring Linkages Parent Sub JV Group

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 was incorporated on September 25, 2007, is licensed by Insurance Regulatory & Development Authority of India (IRDAI) to carry out life insurance business in India. The company commenced operations in June 2008. It is a joint venture of Canara Bank (51%), HSBC Insurance (Asia Pacific) Holdings Ltd (26%) and Punjab National bank (23%). It is engaged in the business of life insurance and pension.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9M FY23 (UA)
Net premium earned	5,026	5,824	4,857
PAT	95	10	-64*
Interest coverage (times)	NM	NM	NM
Total Assets	22,586	27,215	30,193
Net NPA (%)	0.0	0.0	0.0
ROTA (%)	0.5	0.0	-0.3*

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; NM: Not meaning full as outstanding debt is nil
*Excludes surplus of ₹125.5 crore to be included in P&L post statutory audit.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various 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		-	-	-	0.00	CARE AAA; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Issuer Rating	Issuer rating	0.00	CARE AAA; Stable	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (01-Apr-22)	-	1)CARE AAA (Is); Stable (31-Mar-21)	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various 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 the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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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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