CANARA HSBC OBC LIFE INSURANCE COMPANY LIMITED

October 24, 2017

Ratings

Facilities	Rating[1]	Rating Action
Claims Paying Ability/Financial Strength	**CARE AAA (In)** **(Triple A Insurance)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The rating continues to factor in the strong parentage of Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd (CHOICe) with high degree of support, synergies & brand linkage enjoyed by the company, experienced management, high persistency ratios, apart from strong solvency and liquidity position. The rating also takes cognizance of good asset quality, controlled operating costs, strong systems & processes and growth prospects for the insurance industry.

Going forward, the continued support of the shareholders, the ability to increase premium written and profitability will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

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

The shareholders (Canara Bank, HSBC, OBC Bank) are actively involved in the business and have extended financial, technological and infrastructural support to the company. The company is strategically important for the shareholders as demonstrated by the high degree of brand and operational linkages.

Experienced management

CHOICe management team is currently headed by Mr Anuj Mathur who is Chief Executive Officer of the company. He is ably supported by a team of experienced professionals. Mr Gaurav Seth is the Chief Financial Officer of the company with over 20 years of experience in finance including 13 years in insurance sector. Mr Akshay Dhand (Appointed Actuary) is a fellow of the Institute of Actuaries of UK and India. He has close to 14 years of experience in the life insurance industry. Mr Shalabh Saxena is the Chief Operating Officer of the company with over 22 years of experience in retail finance viz. consumer banking and life insurance industry. The company’s investments are managed by Mr Anurag Jain, Chief Investment Officer with extensive experience of 15 years including 6 years with CHOICe as head of Equity Investments.

Strong solvency position

CHOICe’s solvency ratio computed as per Insurance Regulatory Development Authority of India (IRDAI) norms is 4.01 times as on March 31, 2017, and this margin is well above the prescribed limit of 1.5 times by IRDAI. The Available Solvency Margin (ASM) is Rs.794.51 crore and the Required Solvency Margin (RSM) is Rs.198.35 crore as on March 31, 2017. The Capital Adequacy Ratio (CAR) in FY17 is strong at 162.59%. The company has facultative reinsurance treaty with SwissRe which covers Death Benefits for individual business and facultative cover for the policies whose sum insured exceeds Rs.4 crore. In addition the company has taken re-insurance for catastrophic risks that protects it from high claims on extreme events like natural calamities. Also, from April 2016, the company has taken re-insurance from ScorRe for group term plans and group creditor business. Insurance policies sold under PMJJBY are reinsured by both SwissRe and GIC Re.

Low operating costs

The company benefits from the bancassurance model with exclusive agreement with the promoters, as the operational expenses incurred and commissions paid are less. Also, the infrastructure and operational expenses are lower as bank branches are used as distribution centres. The expenses ratio of the company increased marginally in FY17 as a result of building of sales support staff for improved efficiencies and training of Licensed Bank Staff (LBS) thereby laying down the base for future growth.

Consistent performance over the last five years

CHOICe reported positive PAT for the 5th consecutive year in FY17. Total net premium written witnessed growth of 11% y-o-y to Rs.2280 crore in FY17 (PY: Rs. 2,045 crore) on account of growth in the current product portfolio as well as launch of new products in FY17. CHOICe saw 40% growth in First Year Premium as the company has been focusing on retail business. The linked non-participating Life product, accounting for 65% of the total net premium written in FY17, registered a growth of 13% y-o-y in FY17. The proportion of net premium from linked products is high at 65% of total net premium written in FY17 (PY: 64%), however, the same has been on a decline since FY11 (89% of net premium) as the company has been introducing new products in the non-linked category as well as expanding its presence in the Tier-II,III and IV markets where the customers tend to be risk averse.

CHOICe reported a net profit of Rs. 111 crore for FY17 (Rs. 126 crore for FY16 and Rs. 103 crore for FY15). Even though, the company was in the initial stages of operation and given that most life insurance companies generally take longer period of time to break even (typically 9 to 10 years), the company has been reporting profits since FY13, ie, 5 years after commencing operations.

Good Asset Quality

The company's investments supporting both the non-linked policy portfolio and the shareholders' funds are invested, over 95% in fixed-income stocks (largely government bonds) providing assets better liquidity and less risk. Investments supporting linked policies are approximately 63% in equities, with the remainder in government and corporate bonds, infrastructure funds and the money market instruments. A substantial portion of CHOICe's investments are readily marketable thereby extending it ample liquidity support. The company has reported nil NPAs as on March 31, 2017.

Persistency ratio

Healthy level of persistency 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. Below are the persistency ratios for last two years –

Persistency Ratio (%)	**FY16**	**FY17**
For 13th Months	71.0	75.0
For 25th Months	59.6	64.4
For 37th Months	52.0	55.0
For 49th Months	53.5	49.7
For 61th Months	29.5	42.8

Strong Systems

The company uses Information Technology in all facets of operations both in front-end and back office operations. All operations of the company are digitalized and real time backup is maintained.

Customer Service: The company has oriented its strategies towards achieving higher level of customer service. It has taken measures to reduce response time for claims acceptances and settlement of claims/accounts along with continuous customer engagement.

Control Systems: 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 IRDAI regulations, Peer review of actuarial assumptions is conducted by an independent third party.

Positive Industry Outlook

There are 24 players in the Indian Life Insurance Industry with Life Insurance Corporation of India (LIC) having a dominant market share. The total first year premium has grown by 26% y-o-y in FY17 from Rs.138,657 crore during FY16 to Rs. 1,75,023 crore in FY17. Of this, LIC procured Rs. 1,24,396 crore (P.Y. Rs. 97,674 crore) accounting for 71.07% (P.Y. 70.44%) of the total market share of new business in FY17. Among the private insurers, CHOICe's market share (based on WPI of individual business) stood at 2.13% in FY17 (P.Y. 1.95%). The Retail WPI of CHOICe has grown by 39% as against 26%

growth seen by the private players. Despite the growth in insurance market, the penetration of insurance in the Indian market is still very low which gives insurance companies in India scope to grow and expand their market further. Furthermore, with the effective changes in regulatory framework including allowing foreign investors to increase their stake in private sector insurance companies from 26% to 49% and fresh capitalization through public issues, the opportunity to grow is vast in the Indian insurance market which augers well for the private insurance companies in India. The ability of CHOICe to take advantage of the opportunities and leverage the wide network of the bank branches of its shareholders' would be critical to its growth.

Key Rating Weaknesses

Higher concentration in unit linked products

Unit linked products offer combined features of insurance and investment. As per the changes in IRDAI norms in 2010 for unit linked products, the commission payouts to agents were capped and certain other limitations were put that led to reduction in focus of life insurance companies on these products. Linked products accounted for 65% of total revenue of CHOICe during FY17 (PY: 64%).

Analytical approach: Standalone

Applicable Criteria

Insurance Claim Paying Ability
Rating Methodology: Factoring Linkages in Ratings
Financial Sector Ratios

About the Company

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

It is engaged in the business of life insurance and pension. The business spans across individual and group products. The Company operates on a bancassurance model and it has an exclusive access to around 110 million customers and a network of over 9,000 bank branches of its 3 corporate agents. The Company has also tied up with three Rural Regional Banks (RRBs) and Dhanlaxmi Bank for distribution of its products.

The average policies in force as on March 31, 2017 stood at 315975 policies with CHOICe having sold 91088 policies in FY17 (P.Y. 76,015). The total assets under management as on March 31, 2017, were Rs. 11284 crore (P.Y. Rs.9,786 crore).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Net Premium Earned	2045	2280
PAT	126	111
Total Assets	10126	11655
ROTA (%)	1.23	1.02

A: Audited;

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

Status of non-cooperation with previous CRA: Not Applicable

Any other information: *Mr. A.K. Bansal is an Independent Director on the Board of CHOICe and Independent Director on the Board of CARE. To comply with the regulations, the member has not participated in the rating process and its rating committee meeting.*

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Claims Paying Ability	NA	NA	NA	NA	CARE AAA (In)

NA: Not Applicable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Claims Paying Ability	Insurer ratings	-	CARE AAA (In)	-	1) CARE AAA (In) (18-Oct-16)	1) CARE AAA (In) (27-Oc-15)	1) CARE AAA (In) (16-Oct-14)

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CIN - L67190MH1993PLC071691