Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd

December 31, 2018

Ratings

Facilities	Amount (Rs. crore)	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 controlled operating costs, profitable operations, strong systems & processes and growth prospects for the insurance industry. These rating strengths are however offset by the CHOICE's modest market position (~2% share in the individual private life insurance segment).

Going forward, the continued support of the shareholders, the ability to increase premium written and profitability will be the key rating sensitivities. CARE has taken note of OBC's plan of selling its stake in CHOICe and will monitor the developments with respect to changes in shareholding and impact on the operations of CHOICe (if any) given the significance of OBC as an important Bancassurance partner.

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, infrastructural and managerial support to the company. The company is strategically important for the shareholders as demonstrated by the high degree of brand and operational linkages. The company is the captive insurer of Canara Bank, HSBC and OBC Bank and operates primarily on Bancassurance model which contribute significant percentage of the individual premium written by CHOICe. This agreement gives the company access to around 115 million customers and a network of over 10,000 branches of these banks. CARE has taken note of plans of OBC to sell its stake (in part or full) in CHOICe in order to raise capital for meeting its capital adequacy requirement. Any impact on the operations of CHOICe due to change in shareholding will be monitored. Nevertheless, CHOICe's bancassurance arrangement with OBC was renewed in current financial year for a period of next five years ending June, 2023.

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. The overall operations of CHOICe are governed by a 13 member Board of Directors which includes representatives of the key shareholders viz. Canara Bank, OBC and HSBC Holdings.

Strong solvency position

CHOICe's solvency ratio computed as per IRDA norms is 3.72 times as on Sept 30, 2018 and this margin is well above the prescribed limit of 1.5 times by IRDA. The Available Solvency Margin (ASM) is Rs.1025.9 crore as against the Required Solvency Margin (RSM) of 275.5 crore. The capital requirement (RSM) of CHOICe is low due to higher share of linked products (65% of AUM) which are relatively less capital intensive as the investment risk is borne by the investors. CHOICe's solvency ratio is also largely driven by the shareholder's fund given its track record of profitable operations over the last 6 years. In addition the company has taken re-insurance for covering risk beyond a threshold limit and also to cover for catastrophic risks which not only helps in avoiding high claims but also help in conserving capital. Ability of CHOICe to maintain healthy solvency would be crucial.

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 centers.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Consistent performance over the last six years
CHOICe registered a 36% growth in APE (Annual Premium Equivalent) from Rs.630 crore during FY17 to Rs. 855 crore in FY18. Overall Gross Written Premium (GWP) increased by 21% during FY18 to Rs.2781 crore (PY Rs.2295 crore). The growth in premium written was largely driven by the growth in premium for traditional products (Non-Linked products), the share of which increased from 22% in FY17 to 50% in FY18 in the first year 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.

CHOICe reported a PAT of Rs.167.90 crore during FY18 (as against Rs.111.20 crore in FY17) with it being the 6th year of profitable operations. Its adjusted combined operating ratio was comfortable at 97-98% in FY17-FY18 driven by claim Payout (82-87% of Net Premium and Investment Income), Operating Expenses (15-16% of Net Premium) and commission payout ratio (3-4.5% of Net premium).

Persistency ratio
The persistency ratios of CHOICe 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. Below are the persistency ratios for last 3-4 years:

Persistency Ratio (%)	FY16	FY17	FY18	H1FY19
For 13th Months	71.0	75.0	77.9	79.8
For 25th Months	59.6	64.4	69.2	67.4
For 37th Months	52.0	55.0	59.1	63.2
For 49th Months	53.5	49.7	53.4	53.8
For 61st Months	29.5	42.8	43.3	43.4

Good Asset Quality and liquidity of Investment book; however, small exposure to IL&FS group will impact performance
The company's controlled fund (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 March 31, 2018, 51% of the controlled funds were invested in Government bonds, 40% in AAA rated securities, 2% in AA/AA+ rated securities, 5% in money market instruments and balance 1% in equity shares as on Mar-18. Investments supporting linked policies were approximately 64% in equities, 16% in Govt. Securities, 8% in money market instruments and balance 12% in corporate bonds. Also, investment risk of CHOICE is relatively lower due to higher share of ULIPs/Linked Pensions in its product mix (57% share in GWP in FY18 and 65% of AUM as on Mar-18) wherein the investment risk is borne by the investor. A substantial portion of CHOICE's investments are readily marketable thereby extending it ample liquidity support.

As on Sept 30, 2018, there are no NPAs in investment book. However, CHOICe had an investment of Rs.86.06 crore in IL&FS and IL&FS Financial Services Ltd (Non-liked Funds). Most of these investments are in Commercial Papers which are yet to mature (Rs.81 crore maturing 2019) and balance Rs.5 crore being NCD Investment. CHOICe has made a provision of Rs.18.56 crore (21.5%) against the same during H1FY19.. Incremental provisioning on IL&FS exposure is likely to impact the profitability and capital adequacy of CHOICe; albeit given the small exposure the impact is expected to be limited.

Adequate Systems and Controls
The major risks for CHOICE 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). CHOICe, in order to mitigate these risks undertakes regular assessment of the risk 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 IRDAI regulations. Also peer review of actuarial assumptions is conducted by an independent third party.
In order to reduce the risk on account of fraud, CHOICe has put in place various parameters for writing the risks (as per the Underwriting Policy). CHOICe has also entered into treaty agreements with reinsurers for mitigating the risk. Also, in order to mitigate the investment risks, CHOICe 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 Rating Weaknesses
Moderate scale of operations
The scale of the operations of CHOICe is small. As on Mar-18, it had an investment book of Rs.12,688 crore (P.Y. Rs.11,284 crore) with 3,91,335 policies in force. The market standing of CHOICe also remains moderate, it being the 10th largest

private sector player with around 2% share of overall First Year Individual Premium written by Private sector players.

Analytical approach: Standalone; expecting continuous support from promoters given shareholding, brand linkage, business synergies, and management & operational linkages.

Applicable Criteria
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Methodologies - Insurance Claim Paying Ability

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 115 million customers and a network of over 10,000 bank branches of its 3 partner banks. The Company has also tied up with two Rural Regional Banks (RRBs), Dhanlaxmi Bank and with NBFCs including CanFin Homes for distribution of its products. The company also distributes its products through direct channel viz. direct distribution and digital platform.

The average policies in force as on March 31, 2018 stood at 3,91,335 policies with CHOICe having sold 1,04,873 policies in FY18 (P.Y. 91,111). The total assets under management as on March 31, 2018, were Rs.12,688 crore.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Net Premium Earned	2,280	2,752
PAT	111	168
Total Assets	11,327	12,810
ROTA (%)	1.06	1.39
Solvency Ratio	4.01	3.82
Assets under Management (AUM)	11,284	12,688

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: *Not Applicable*

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Claims Paying Ability	Insurer ratings	-	CARE AAA (In)	-	1) CARE AAA (In) (24-Oct-17)	1) CARE AAA (In) (18-Oct-16)	1) CARE AAA (In) (27-Oc-15)

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