July 28, 2023

Star Union Dai-ichi Life Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	125.00	125.00	[ICRA]AA (Stable); reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in Star Union Dai-ichi Life Insurance Company Limited's (SUD Life) strong promoter profile with Dai-ichi Life International Holdings LLC (Dai-ichi Life; key operating subsidiary – Dai-ichi Life Insurance Co. Ltd. rated (A1/ Stable) by Moody's), Bank of India {BOI; rated [ICRA]AA+ (Stable)} and Union Bank of India {UBI; rated [ICRA]AA+ (Stable)} holding 45.94%, 28.96% and 25.10%, respectively, as on March 31, 2023. The rating factors in the strategic importance of SUD Life to its promoters, as demonstrated by the regular capital infusions, the strong representation on the board and the shared brand name. These factors strengthen ICRA's expectation that the company will receive timely support from the promoters when required.

The rating also factors in the operational support in terms of access to the extensive branch network (~13,700) of the promoter banks. This enables SUD Life to leverage the bancassurance (banca) channel to source business at a relatively lower cost. Individual new business premium (NBP) accounted for 47.5% of the total NBP in FY2023 and ~97% of the same was sourced through the banca channel with its promoter banks. Within the group business as well, 32.8% of the NBP was largely sourced through promoter banks (including regional rural banks – RRBs) in FY2023. SUD Life maintains a high share of life insurance policies sold by the promoter banks, remaining strategically important to them. The rating also considers SUD Life's strong solvency position with a solvency ratio of 2.20 times as on March 31, 2023 compared to the regulatory requirement of 1.50 times.

The rating is partially offset by SUD Life's modest scale of operations with a market share, in terms of individual annual premium equivalent (APE), of 1.3% in FY2023. Further, its NBP has a higher share of the group business (52.5% of the NBP in FY2023), which could be lumpy and is volatile in nature. The company's ability to grow its individual business and diversify its business sourcing while improving its persistency levels will be a key driver for enhancing its market position and sustaining the profitability. The profitability and solvency may remain susceptible to changes in the actuarial assumptions, driving long-term changes in the reserving requirements.

The Stable outlook considers the company's strong promoter profile and the track record of capital infusion, as well as operational and strategic support from the promoters.

Key rating drivers and their description

Credit strengths

Strong parentage ensures capital, strategic, and operational support – SUD Life is a joint venture between Dai-ichi Life, BOI and UBI. Its importance to the promoters is demonstrated by their track record of equity infusions and the shared brand name. The promoters infused growth capital of Rs. 200 crore in FY2023 through a rights issue in the proportion of their shareholding.

Further, the promoters have strong representation on SUD Life's board with Dai-ichi Life having three representatives while BOI and UBI have two each. ICRA expects that capital support will be forthcoming from the promoters, as and when required.

SUD Life has access to the wide branch network (~13,700) of the promoter banks. Further, BOI and UBI also sponsors of a few RRBs with more than ~2,700 branches, which provides the company with access to rural markets. SUD Life sources ~97% of its individual NBP through the banca channel with its promoter banks and had a high counter share in the life insurance policies sold by these banks. Hence, it remains strategically important to these banks. Dai-ichi Life was established in 1902 and is one of the major life insurance companies in Japan. Its vast experience in the life insurance industry benefits SUD Life in product approval and reinsurance arrangements, among others.

Strong solvency supported by internal accruals and capital infusion – SUD Life's solvency position remained strong with a solvency ratio of 2.20 times as on March 31, 2023 compared to 2.00 times as on March 31, 2022. The company's solvency ratio was better compared to peers and remained above the regulatory requirement of 1.50 times. The strong solvency profile was largely supported by healthy internal capital generation and the capital infusion of Rs. 200 crore in FY2023. Further, the required solvency margin (RSM) for the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) business was reduced to 0.05% from 0.10% of the sum at risk (Rs. 2 lakh per policy) in FY2023, which aided the company's solvency ratio. SUD Life is expected to remain well capitalised with a strong solvency profile in the near term.

While the company's profitability was impacted in FY2022 by the high Covid-19-related death claims with a return on equity (RoE) of 3.1%, the RoE improved to 12.0% in FY2023. With the price revision of the PMJJBY scheme, the company reported a marginal profit in this scheme in FY2023 compared to a loss in FY2022, which supported its overall profitability in FY2023. This was partly offset by the increase in operating expenses as SUD Life is looking to diversify its distribution network. The value of new business (VNB) margin (post cost overrun) in FY2023 was supported by the higher share of non-participating (non-par) products in the individual business segment (69.7% of the individual APE).

Credit challenges

Modest scale of operations with NBP growth largely driven by group business – SUD Life's operations remain modest with a marginal market share in individual APE (1.3% in FY2023 from 1.2% in FY2022) and NBP (0.84% in FY2023 from 0.61% in FY2022) terms. The rise in the market share was driven by the high year-on-year (YoY) growth of 61.9% in the NBP in FY2023, which was above the industry average. However, the NBP growth was largely driven by the group business, which increased to 52.5% of total NBP in FY2023 from 10.0% in FY2019. The single premium group business is typically a low-margin business and remains exposed to renewal risk. ICRA notes that the group fund business is chunky and typically witnesses a high churn rate as corporates remain sensitive to the rates being offered, leading to volatility in premium income. While the group business is largely from the parent, it remains susceptible to renewal risks. The company's distribution is primarily driven by its promoter banks, which had a share of 97.2% in the individual NBP in FY2023. SUD Life's ability to diversify and develop proprietary channels will be instrumental for improving its market position and sustaining its profitability.

Persistency levels improving but remains lower than peers – Persistency levels have traditionally been one of the key areas of focus for life insurance companies as renewals entail large top-line growth without impacting the cost metrics. SUD Life's persistency, while improving, remains lower compared to peers. Its 13th month persistency ratio improved to 76.0% in FY2023 from 72.7% in FY2022, driven by the focus on analytics, direct debit mandate of premium, dedicated collection teams, and post product sale call to customers among others. The company's ability to improve its persistency across cohorts and product segments would remain crucial for incremental profitability in the individual business.

Liquidity position: Strong

The company's net premium (excluding unit linked insurance plan; ULIP) stood at Rs. 4,895 crore in FY2023 in relation to the maximum net claims and benefits (excluding ULIP) paid of Rs. 1,031 crore in the last few years. In addition, investments in Central and state government securities stood at Rs. 11,007 crore, accounting for 69% of the total investments (excluding ULIP) as on March 31, 2023, which supports the liquidity to meet the claims of policyholders. The shareholders' investment of Rs. 1,045 crore also remains strong in relation to the sub-debt outstanding of Rs. 125 crore as on March 31, 2023.

Rating sensitivities

Positive factors – The rating could be revised if there is a change in the credit profile of the promoters. A substantial and sustained improvement in the company's market share and profitability, leading to an improvement in its financial risk profile could also positively impact the ratings.

Negative factors – The outlook or the rating could be revised if there is a weakening in the credit profile of the promoters or a decline in the strategic importance of SUD Life to its promoters or in the expectation of support from the promoters. Pressure could also arise if the company's solvency ratio deteriorates to less than 1.60 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Issuer Rating Methodology for Life Insurance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent/Investor: BOI, UBI and Dai-ichi Life International Holdings LLC The rating factors in the high likelihood of support from Dai-ichi Life, BOI and UBI, given the shared brand name and representation on the board.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

SUD Life is a joint venture between BOI (28.96% as on March 31, 2023), UBI (25.10%) and Dai-ichi Life (45.94%). The company was incorporated in September 2007 and began operations in February 2009. BOI and UBI are public sector banks with established track records. Set up in 1902, Dai-ichi Life is one of the major life insurance companies in Japan.

SUD Life's life insurance business consists of the Participating Life (Individual), Non-participating Life (Individual and Group), Annuity (Individual and Group), Pension Individual, Heath Individual and Unit Linked Life (Individual & Group) and Pension segments. It operates through a wide network of ~13,700 promoter bank branches across India. It reported an NBP of Rs. 3,118 crore or a market share of 0.8% in FY2023 compared to NBP of Rs. 1,926 crore or a market share of 0.6% in FY2022. Further, the company reported gross premium written (GPW) of Rs. 5,746 crore and a net profit of Rs. 127 crore in FY2023 compared to Rs. 4,137 crore and Rs. 23 crore, respectively, in FY2022.

Key financial indicators (audited)

Star Union Dai-ichi Life Insurance Company Limited	FY2022	FY2023
Gross direct premium	4,137	5,746
Income from investment and fees	1,344	1,130
Total operating expenses	713	1,058
PAT	23	127
Total net worth	736	1,062
Total policyholders' + Shareholders' investments@	11,825	15,934
Total expense ratio (excluding commission expense)	12.1%	13.6%
Return on equity	3.1%	12.0%
13th month persistency ratio	72.7%	76.0%
61st month persistency ratio	30.8%	31.3%
Regulatory solvency ratio (times)	2.00	2.20

Source: Company, ICRA Research; Amount in Rs. crore ; @ Investments exclude linked investments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul 21, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jul 28, 2023	Aug 01, 2022	Aug 03, 2021	-
1	Subordinated debt programme	Long term	125.0	125.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE503V08016	**Subordinated debt programme**	Nov-24-2021	7.75%	Nov-24-2031*	125.00	[ICRA]AA (Stable)

Source: Company, ICRA Research

** The company has a call option, which is exercisable five years from the date of allotment on November 24, 2026 and at the end of every year thereafter before the redemption date*

The rating also factors in the key features of the instrument, in line with the applicable guidelines for subordinated debt:

» Servicing of interest is contingent on the company maintaining a solvency ratio above the levels stipulated by the regulator[1]

» If the interest payouts lead to a net loss or an increase in the net loss, the prior approval of the regulator would be required to service the debt

Annexure II: List of entities considered for consolidated analysis: Not applicable

[1] *As per the Insurance Regulatory and Development Authority of India (IRDAI), insurers are required to maintain a minimum solvency ratio of 1.50 times*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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