

# **Insure Policy Buyout Trust**

## **Credit rating report**

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## Instrument details

Trust Name	Instrument	Rated Amount (Rs Cr)	Tenure (In Months) *	Complexity level	Ratings / Credit Opinions ®	Rating Action
Insure Policy Buyout Trust	Class A PTCs <sup>§</sup>	100.00 <sup>^</sup>	Up to 187 months	Highly complex	Provisional CRISIL AA+ (SO)	Provisional Rating Assigned

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

<sup>§</sup>The outstanding amount shall include paid-up maturity benefits to be paid to Class A PTC holders by the legal final maturity. This amount will vary as investors make future premium payments and future bonuses, wherever applicable, are declared by the insurance companies.

\*Indicates the maximum door to door tenure of each PTC issued which would vary depending on the tenure of the underlying policies. This is including tail period of 7 months after the final maturity date of the last policy maturity date.

<sup>^</sup>This is the maximum benefit that can be expected to accrue to the Class A PTCs after accounting for guaranteed and non-guaranteed benefits under the policy

1 Crore = 10 million

@ A prefix of 'Provisional' indicates that the rating centrally factors in the strength of specific structures and is contingent upon occurrence of certain steps or execution of certain documents by the issuer, as applicable, without which the rating would either have been different or not assigned ab initio. This is in compliance with a May 6, 2015, directive 'Standardizing the term, rating symbol, and manner of disclosure with regards to conditional/ provisional/ in-principle ratings assigned by credit rating agencies' by Securities and Exchange Board of India (SEBI) and April 27, 2021 circular 'Standardizing and Strengthening Policies on Provisional Rating by Credit Rating Agencies (CRAs) for Debt Instruments' by SEBI.

### Note on complexity levels of the rated instrument:

Crisil Ratings assigns complexity levels to various types of financial instruments on a voluntary basis. This is a pro-bono exercise aimed at strengthening Indian capital markets through greater transparency. Crisil Ratings Complexity Levels reflect the ease of understanding and analysing the risk elements in these instruments and allow investors to gauge the level of sophistication and due diligence required before investing in any financial product. Instruments are classified into three categories: simple, complex, and highly complex. This is done using four parameters: ease of calculation of payout and returns, clarity on timing of cash flows, number of counterparties involved in the transaction, and familiarity of market participants with the instrument. Complexity is distinct from risk: saying that an instrument is simple is not to say that it is less risky, but the risk will be easier to understand in a simple instrument than in a complex one. Accordingly, the complexity level applicable to PTC instrument / direct assignment indicated in the above report is 'Highly Complex'.

Investors can refer to <https://www.crisil.com/complexity-levels> for more details and a comprehensive list of Crisil Ratings Complexity Levels or call the Customer Service Helpdesk Toll free number: 1800 267 1301.

## Rationale

Crisil Ratings has assigned its 'Provisional CRISIL AA+ (SO)' ratings to Class A pass-through certificates (PTCs) to be issued by 'Insure Policy Buyout Trust'.

This securitisation transaction is backed by assigned life insurance policies, issued by Tata AIA Life Insurance Company Limited (Tata AIA Life) and Bajaj Allianz Life Insurance Co. Limited (Bajaj Allianz Life). The said life insurance policies will be assigned to the Trust by the original policy holders for a purchase consideration not less than policy's surrender value. Valuable Private Limited (VPL) is the settlor in this transaction.

The transaction envisages issuance of Class A PTC notes under a master trust structure backed by these assigned life insurance policies. Class A PTCs shall be split into Class A1 and Class A2 PTCs which shall be backed by guaranteed and semi-guaranteed policies respectively. All classes of PTCs shall be further split into multiple tranches/sub-series as per the residual maturity of the underlying policies mapped to these PTCs. The investor in these notes would continue to pay premiums for the allocated insurance policies.

The Class A PTC are entitled to receive the maturity benefit from underlying policies or death benefit in the unfortunate event of death of the original insured. The future bonus payments to be made by insurance companies are variable. A lower bonus rate in the future can result in lower value accrual to the Class A PTC and thus the due amount to the Class A PTC could be variable due to linkage to future bonus which is yet to be declared. The transaction provides a tail period of 7 months (i.e.) legal final maturity of the issued Class A PTC notes will be 7 months from the maturity of the last insurance policy allocated to the notes.

The settlor is responsible for bearing the Trustee and servicer expenses. With respect to the same, a fixed deposit of Rs. 35 lakh will be lien marked in favor of the Trust to meet servicing related expenses in case of non-payment by the settlor. Additionally, this fixed deposit will be topped up further as and when PTCs are issued as a provision to cover all estimated fees and Trust related expenses.

The rating is an indication of the likelihood of proceeds from the insurance policies being paid out to the investors in the PTCs as per the terms of the underlying policies in a timely manner.

The rating is based on the transaction structure and payment mechanism including a tail period of 7 months for recognition of default, soundness of the legal structure and the claim settlement track record and credit risk profile of the insurance companies.

Class A PTC investors' decision(s) to request an early redemption of the PTCs resulting in surrender of the underlying insurance policies by the Trustee, the termination of the Trust with the consent of Class A PTC investors resulting in surrender of the underlying insurance policies by the Trustee, any prolonged delays in receipt of death claims, or a declined or reduced death claim due to unnatural death or other reasons are among the operational issues which can impact the quantum and timeline of proceeds from the policies to make payments to investors in Class A PTC notes; these aspects are not covered by the rating.

## Key rating drivers

### Strengths

- The transaction structure and payment mechanism for Class A PTCs, including a tail period of 7 months for recognition of event of default on the Class A PTCs
- The legal opinion on the assignment of the policies to the Trust being valid. The trust cannot further assign the policies, making the policies non-tradable in nature
- Regulatory clarity around assignment of life insurance policies.
- Claim settlement track record and credit risk profile of the insurance companies issuing the underlying policies

### Weaknesses

- Limited performance track record of the PTCs backed by this asset class and the servicer

These aspects have been adequately factored in its rating analysis by Crisil Ratings.

## Liquidity: Strong

The underlying policies are issued by insurance companies with strong claim settlement capabilities. Additionally, the settlor will place a fixed deposit of Rs 35 lakh to meet any future servicing expenses (including appointment of a new service provider) should the settlor be unable to pay the same. The settlor will also place incremental deposits as and when new PTCs are issued to provision for the recurring trustee expenses which are linked to the number of PTCs issued.

## Rating sensitivity factors

### Upward factors:

- Significant scale-up in track record of operations of the servicer
- Improvement in claim settlement process and credit risk profile of the insurance companies issuing the underlying policies

### Downward factors

- Non-adherence to transaction structure and terms as well as payment mechanism envisaged at the time of the rating
- Any prolonged delays in claim settlement or deterioration in credit risk profile of the insurance companies issuing the underlying policies

## Key rating assumptions

Crisil Ratings has analysed the legal opinion provided for assignment of policies, non-fungibility of the underlying policies across the Class A PTC and bankruptcy remoteness of the trust.

A Class A PTC investor can request early redemption of the PTCs, resulting in surrender of the underlying policies by the trustee to insurance company. The Trustee, with the consent of Class A PTC investors, can also terminate the Trust, which could result in surrender of the underlying policies. In case of surrender of the underlying policies, the surrender value is provided by the insurance company. The same can also be lower than the initial investment amount made by the investor in certain scenarios. Changes in the PTC investor payout on account of such occurrences are not covered under the assigned ratings.

Crisil Ratings has also factored in the following developments in the event of their occurrence:

- **Future premiums are not paid for underlying policies:** if a Class A PTC notes investor stops paying future premium at any point in time, then they're eligible for reduced death claim benefit and a paid up maturity benefit will be paid at maturity.
- **An event of death happens and is reported on time:** The death benefit will be split between the investor and kin of original insured as per the terms of the assignment agreement.
- **An event of death happens and is not reported on time:** The death benefit will be split between the investor and kin of original insured as per the terms of the assignment agreement unless the reporting happens post the policy maturity date in which case the maturity benefit would have already been paid and hence no death benefit is payable to policyholder's nominee.

### Cashflow waterfall (as per the termsheet)

Insurance Proceeds received from Insurer(s) shall be distributed as per the following waterfall:

In the event of any scheduled payment under the policy or settlement on surrender of the policy:

- Payment of any statutory dues of Trust if not paid by the Settlor as originally envisaged or not recoverable from Fixed Deposit pledged in favour of the trustee as security against payment of such fees and expenses.
- Payment of any fees or recurring expenses of the Trust if not paid by the Settlor as originally envisaged or not recoverable from Fixed Deposit pledged in favour of the trustee as security against payment of such fees and expenses.
- Payment to mapped Series A PTCs – monies shall first be used to redeem the principal amount (face value) of the mapped PTCs till the time the face value reduces to a nominal amount of Rs. 1
- Payment of residual amount, if any, as yield on the mapped PTCs together with the redemption of the nominal outstanding amount on the final payout date

In the event of settlement of policy upon death of the original insured:

- Payment of any statutory dues of the Trust if not paid by the Settlor as originally envisaged or not recoverable from Fixed Deposit pledged in favour of the trustee as security against payment of such fees and expenses.
- Payment of any fees or recurring expenses of the Trust if not paid by the Settlor as originally envisaged or not recoverable from Fixed Deposit pledged in favour of the trustee as security against payment of such fees and expenses.
- Payment to mapped Class A PTCs – monies shall first be used to redeem the principal amount (face value) of the mapped PTCs till the time the face value reduces to a nominal amount of Rs. 1
- Payment of residual amount, if any, as yield on mapped Class A PTCs (however, yield payable to the PTC investor will be in line with the terms of the assignment agreement) together with the redemption of the nominal outstanding amount on the final payout date
- PTC investors shall have a claim on the amount received under the mapped policies from Insurer in the Trust account. Trustee is bound to make the payments to the PTC holders as per the terms of the transaction.

The Service Provider shall provide the payout report to the trustee within 2 working days of the amount being received in the Trust Account. The trustee shall then proceed to transfer the monies to the PTC investors as per the terms of the transaction.

The payouts to the investor will be scheduled on 10th, 20th and 30th of every month (subject to business day convention) as specified in the trust deed.

### Counterparty details

The table below lists parties to the transaction, the capacities in which they are involved, and the impact of their non-performance on the ratings on the PTCs.

Capacity	Counterparty	Rating	Effect on PTC ratings in case of non- performance
Settlor	VPL	Not rated by Crisil Ratings	<p>No significant effect on credit ratings is envisaged in the case of non-performance as the Settlor.</p> <p>With respect to the Settlor's obligation to bear certain costs of the Trustee/service provider, a fixed deposit of Rs 35 lakh will be lien marked in favor of the Trust to meet servicing related expenses in case of non-payment by the settlor. Additionally, this fixed deposit will be topped up further as and when PTCs are issued as a provision to cover all estimated fees and trust related expenses.</p>
Servicer	VPL	Not rated by Crisil Ratings	<p>The Service Provider performs services as required by the Trustee with respect to the administration of the Trust including advising on and monitoring, administering, servicing of the policies held by the Trust and acting for and on behalf of the Trustee before the Insurer. No effect on credit ratings is envisaged since the Service Provider can be replaced by the Trustee in consultation with the Settlor upon receipt of written instructions from the Majority Beneficiaries upon trigger of Service Provider Event(s) of Default.</p>
Collection & Payout Account Bank	ICICI Bank Limited	Rated 'CRISIL AAA/AA+/Stable/CRISIL A1+'	Negligible effect. Account bank can be changed without impacting the rating.
Trustee	Beacon Trusteeship Limited	Not rated by Crisil Ratings	Negligible effect. Can be replaced at minimal cost.

## Transaction documents

The list of documents mentioned in the 'Compliance and monitoring' section below highlights the transaction documents that form a part of the securitisation transaction and are critical for conversion of a provisional rating into a final rating.

### Legal opinion

Crisil Ratings bases its analysis of the legal aspects in the transactions on a professional opinion from an external legal counsel. VPL, in its capacity as the originator has provided an independent legal opinion on the following:

- That the form of assignment proposed to be facilitated by VPL is recognized and permitted under the provisions of section 38 of the Insurance Act and applicable regulations and is valid in terms of the underlying transaction documents.
- The assignment of policies to the Trust shall be bankruptcy remote of VPL and the creditors of VPL in the event of bankruptcy, liquidation or any analogous proceedings against the Assignor.
- The interest of the beneficiaries of the Trust in the respective Policies is non-fungible in nature i.e. Each security/certificate issued by the Trust will signify a beneficial interest in a specific set of Policies, and any interest in the Policies will not be fungible inter se holders of the of the securities/certificates issued by the Trust.
- All transaction documents will be duly executed in accordance with the prevailing stamp laws and registration laws and would constitute legal, valid, enforceable and binding obligations of the parties thereto, enforceable against the parties in accordance with the terms set forth therein”

### Compliance and monitoring

#### Additional disclosures for Provisional ratings

For assigning the provisional rating, Crisil Ratings has considered the provisional rating to be contingent upon execution of following documents:

Executed documents:

- Trust Deed
- Servicing Agreement
- Assignment Agreement
- Structure Document

Additional documents, if any, executed for a transaction shall also be provided along with the above said documents.

The provisional rating shall be converted into a final rating following receipt of transaction documents duly executed and/or confirmations on completion of pending steps within 90 days from the date of issuance of the instrument. The final rating assigned after the end of 90 days (or following an extension of upto 90 days, if any, granted by the rating committee of Crisil Ratings after considering case specific considerations) shall be consistent with the available documents.

The final rating assigned post conversion shall be consistent with the available documents. In case of non-receipt of the duly executed transaction documents within the above-mentioned timelines, the rating committee of Crisil Ratings may grant an extension of up to another 90 days.

**Rating that would have been assigned in absence of the pending steps/ documentation:**

SEBI's operational circular dated January 06, 2023, prescribes the requirement of specifying the rating that would have been assigned in absence of the pending steps/ documentation considered while assigning provisional rating. However, Crisil Ratings believes that in this case, the absence of the pending steps/ documentation would not result in any rating being assigned.

**Risks associated with provisional nature of credit rating:**

A prefix of 'Provisional' to the rating symbol indicates that the rating is contingent upon occurrence of certain steps or execution of certain documents by the issuer, as applicable. In case partial / complete documentation received and/or completion of steps deviates significantly from the expectations, the rating may be subject to rating actions, including placing the rating on watch or a rating/outlook change, depending on status of progress on a case-to-case basis. In the absence of the pending steps / documentation, the rating on the instrument would not have been assigned ab initio.

## Annexures

### 1. Settlor's profile

VPL was set-up in June 2021 by Mithil Sejjal and Satprem Mohanty with an objective to maximise value from existing insurance policies for policy holders and insurers. At present the entity is primarily working with Tata AIA Life Insurance Company Limited, Bajaj Allianz Life Insurance Co. Limited, HDFC Life Insurance Company Limited, ICICI Prudential Life Insurance Company Limited, Kotak Mahindra Life Insurance Company Limited, MAX Life Insurance Company Limited, IndiaFirst Life Insurance Company and Aditya Birla Sun Life Insurance Company Limited.

The entity engages in three primary activities-1) Educating the policyholders (on receipt of leads directly from the insurance companies) around the benefits of continuing with the policy till maturity to ensure maximum retention, 2) has tie ups with various lenders such as Axis Finance Limited, ICICI Bank Limited, Bajaj Finserv Limited, TATA Capital Limited, etc. to provide loans against the insurance policies and 3) Provides assignment facilitation platform by connecting the policyholders who want to surrender/discontinue their life insurance policies to potential investors.

#### Key Financial Indicators

As on / for the period ended	Unit	March 2024	March 2023
Total managed assets	Rs Crore	9.8	3.8
Total income	Rs Crore	4.4	1.3
Profit after tax (PAT)	Rs Crore	0.2	(0.1)
Adjusted gearing	Times	0.1	0.2*
Return on managed assets	%	2.2	(3.2)

\*Compulsory convertible debentures (CCD) of Rs 3.3 Crore have been considered as a part of net worth in fiscal 2023. The CCDs were converted during fiscal 2024.

### 2. Rating history for last three years

		Current		2024		2023		2022	
Instrument	Type	Quantum (Rs Cr)	Rating	Date	Rating	Date	Rating	Date	Rating
Class A PTCs	LT	100.00	Provisional CRISIL AA+ (SO)		--		--		--

### 3. Criteria details

#### Links to related criteria

[Meaning and applicability of SO and CE symbol](#)

[Evaluating risks in securitisation transactions - A primer](#)

[CRISILs rating methodology for ABS transactions](#)

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