ICICI Prudential Life Insurance Company

Earnings Conference call – Quarter ended March 31, 2018 (Q4-FY2018)

April 24, 2018

Please note that the transcript has been edited for the purpose of clarity and accuracy. Certain statements in this call are forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors.

Sandeep Batra: Good afternoon and welcome to the results call of ICICI Prudential Life Insurance Co for FY2018. I have Satyan Jambunathan, CFO and Vikas Gupta head of Investor relations. We will walk you through the developments during the quarter as well as the presentation on the performance for FY2018. We have put up the results presentation on our website. You could access it as we walk through the performance presentation.

Indian life insurance

Let me start by giving a quick recap of what we, in the life insurance industry do. In the Indian financial services industry, we are uniquely positioned to cover a range of customer needs. We can offer a range of savings products across fixed income and equity platforms. We can also offer annuity, term plans and defined benefit health plans.

Broadly, all our products can be categorised into either savings or protection. Savings products are offered on three platforms- linked, participating and non-participating. These platforms differ in terms of choice of asset allocation, charges, transparency and surrender penalties. However life cover offered is the same across all savings products i.e. 10 times annual premium. The exception to this 10 times cover being annuity products. As highlighted by IRDAI's product committee, surrender penalty in the traditional savings (non-linked) products are significantly high and there is a need for improving their surrender value proposition.

Protection products are available in retail, group and credit life platforms. These products provide cover for life, disability, critical illness and accidental death. These are pure risk low cost products. We remain committed to selling customer centric products and that is reflected in our product mix.

Strategy & performance

As we have highlighted earlier our objective continues to be to grow the absolute value of new business (VNB). We are a retail focused company with a strong orientation towards superior business quality and robust risk management. We intend to capitalise on the opportunities in the long term savings and protection segment using customer centric products delivered through our multi-channel distribution architecture. We leverage technology extensively with clear focus on business outcomes.

During the year we lost our private market leadership which we had held since inception. Our APE grew by 17.6% during FY2018. Within this our Protection APE grew by 71.5%. During the same period our Value of New Business was ₹ 12.86 bn, a growth of 93.1% over FY2017. Over a 3 year period VNB has grown at a CAGR of 68.3% driven by consistent growth in savings business, significantly higher growth in protection business, consistent improvement in persistency and cost ratios.

Savings APE and protection APE had grown at a CAGR of 16.3% and 80.4% respectively over the last 3 years. Our 13th month persistency which we believe is the most important indicator of quality of business was 86.9% in 11MFY2018 for the retail regular premium business. In our calculation of persistency we do not include group premium. With a view to improving the quality of disclosure, we are now disclosing the persistency excluding single premium policies as well. We believe that this is the highest in the industry. The savings business continues to improve on the back of cost efficiencies. Further details of VNB growth are available in the presentation.

Our Indian Embedded value increased from ₹ 161.84 bn in FY2017 to ₹ 187.88 bn in FY2018. Embedded value operating profit increased from ₹ 22.95 bn in FY2017 to ₹ 36.80 bn in FY2018. Return on Embedded value improved to 22.7% against 16.5% in FY2017. If we look at the contributors of RoEV, VNB as % of opening EV increased from 2.3% in FY2015 to 7.9% in FY2018. Our operating variances have been consistently positive. Pre Dividend EV has grown by 23.4% over last year.

With regards to EV and VNB computation, we would like to highlight the following points

1. We have aligned the method of measurement of group term APE with rest of the industry. Earlier entire premium received under Group term was recognised as new business single premium. We are now considering premiums under all new lives as new business regular premium; while premium received from the remaining lives are considered as renewal premium. Impact of this change on VNB is a positive impact of ₹ 0.14 bn.

2. We have aligned the tax rate used in EV and VNB to effective tax rate from our earlier practice of gross tax rate. This is consistent with some of the disclosures in the industry. Earlier this difference was getting recognised under "other variances" in the EV movement. EV and VNB impact of above change is captured under the head "operating assumption change" in the EV movement and the VNB movement summary.

3. There has been no material change in the persistency assumptions of savings products.

We are a retail focused company. The retail segment contributes more than 97% of new business APE and around 88.5% of the company's AUM. We have been using technology to simplify the process at various stages of a customer lifecycle. We were the first financial institution in the country to tie up with UIDAI and use Aadhar for e-KYC. We are also using robotics to reduce the processing time of policies.

Retail Market share for the company was 11.8% in FY2018 as compared to 12.0% in FY2017. Our growth has been consistently ahead of the industry over the last 3 year and 5 year period.

We have a balanced channel mix and all our channels have been growing consistently. We have been using technology to drive growth across channels. We have a strong systems integration with our existing partners and we use modular plug and play model for faster on-boarding of new partners. We also use geo tags for lead allocation in our direct channels. In the agency channel, the entire on-boarding process for a new agent is now paperless.

Our savings products have grown at a rate of ~16% over last 1, 3 and 5 year period. As we have articulated our focus on protection segment, it has grown at multiple of savings segment over the same period at 71.5% during FY2018. In the savings segment we have been focused on creating value for customer and shareholders by consistently improving persistency and the cost ratio. Our persistency has improved consistently over the last 5 years for both linked and non-linked categories. Within the linked segment, the equity mix is broadly in the range of 50%-60%, with certain customers choosing a predominantly fixed income portfolio and many others a predominantly equity. What is important is that the persistency is similar across these range of asset allocation choices. Use of technology has helped in improving the cost ratio of our savings business. 64% of our policies get issued within 2 days. Use of analytics for underwriting based on customer profiles is one of key reasons for our having the highest average premium across the industry. For the protection segment, we have a comprehensive suite of products with focus on value creation through smooth on-boarding and robust risk management. We use analytics and real time connectivity with different eco-systems for automated underwriting. We have been pioneers in tele-underwriting in the country. We offer convenience of medical tests at home to our customers. All these have resulted in a strong growth in the protection business. During FY2018 protection policies contributed ~40% of total retail policies.

We have a strong focus on business quality. Our 13th month persistency for retail regular premium business was 86.9% for 11mFY2018 which we believe is the best in industry. We have seen meaningful improvement in persistency across cohorts for 11mFY2018. Our renewal premium has grown by 23.1% for FY2018 and at a CAGR of more than 20% for the last 3 years. We are the first in the industry to offer paperless registration of ECS mandates. We offer approximately 250,000 physical points of presence for renewal payment. For online payment we also offer e-wallets, UPI, Bharat QR etc. 60% of our renewal premium is collected through the digital medium.

Technology has also helped in improving customer experience for service transactions. 72% of service transaction are based on self-service. We have also enabled online platforms for partners to service customers. Our average time for claims settlement has improved from 6 days in FY2014 to 3 days in FY2018.

Our total cost to TWRP ratio was 13.7% for FY2018 compared to 15.1% for FY2017. 93% of new business applications are initiated on our digital platform. Technology has helped in improving employee productivity from ₹ 2.12 million in FY2012 to ₹ 5.30 million in FY2018.

Our PAT for FY2018 was ₹ 16.20 billion compared to ₹ 16.82 billion for FY2017. This drop in PAT is on account of new business growth, particularly in the protection business. The Board has recommended a final dividend of ₹ 3.30 per share including special dividend of ₹ 1.10 per share which translates to 59.8% of PAT (excluding DDT) for H2-FY2018. Given the growth opportunities, special dividend may come down over FY2019. The dividend proposal is subject to shareholder approval. Our solvency as on 31st March 2018 was 252%

To summarise, we aim to tap the growth potential for both savings and protection segments. Our business objective continues to be growing the absolute VNB. Our customer centric approach across the value chain from products to claims management and strong focus on business quality position us well to capitalise on this opportunity. Our multi-channel architecture is backed by a strong technology platform. We have a strong capital position to support growth.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session.

Dhaval Gada: What is the reason for a significant reduction in acquisition expense related sensitivity for FY2018 versus FY2017?

Satyan Jambunathan: Our non-commission cost ratios in FY2018 had come down quite sharply. That is predominantly what is showing in the reduced sensitivity of acquisition expenses because in the acquisition expense sensitivity, we measure the sensitivity to non-commission expenses. At an aggregate level as the profitability itself of the portfolio has improved, you will find that the sensitivities will become more muted.

Dhaval Gada: Overall has there been any change in the cost inflation that you would have assumed this year compared to earlier FY2016 or FY2017?

Satyan Jambunathan: No material change. The sensitivity only applies to the acquisition cost.

Dhaval Gada: Could you explain what is leading to significant operating assumption change?

Satyan Jambunathan: We have made a change in the treatment of tax as far as the EV and VNB computation is concerned. Earlier we used to allow for a full tax rate of 12.5% plus surcharge, in reality there are certain exemptions available which means that the effective tax rate is lesser as you would have noticed in the financials, we have made that change in the EV as well. This is consistent with the market practice. The 7.6 billion change that you are seeing on the EV of operating assumption changes is largely led by this.

Dhaval Gada: Would it be one-time in nature and shouldn't repeat?

Satyan Jambunathan: This would be one-time. It is only in the EV that it's a one-time. In the VNB it has a sustainable effect.

Dhaval Gada: What would be the VNB impact of this item?

Satyan Jambunathan: The bridge on VNB that is put out at slide 26, there is an operating assumption change of 1.3%. This is predominantly led by the effective tax rate movement.

Dhaval Gada: You have not assumed any material change in the savings persistency. Is that correct?

Sandeep Batra: That's correct.

Dhaval Gada: Would that be an additional driver for margin expansion into FY2019 and 2020?

Satyan Jambunathan: The factors that affect the future profitability remain unchanged. It is the protection business, persistency and cost ratios. To the extent if we are able to maintain our persistency even at the current level there is an opportunity for improved margin.

Dhaval Gada: Could you share the PVNBP or PVFP if possible. Just wanted to understand how different they are vs. at the time of IPO?

Satyan Jambunathan: We haven't put that out; but structurally with the improving persistency we would expect that to improve.

Dhaval Gada: Would be like more than 10% improvement or it is just come qualitative?

Satyan Jambunathan: We haven't reported that number separately.

Adarsh Parasrampuria: Can you talk about the 4% increase in VNB margin due to change in product mix?

Satyan Jambunathan: We have been highlighting some of the changes in the product mix other than protection over the year and the same holds now. Also there is increase in protection mix.

Participating mix has remained largely stable over last year. The mix change that you see is within the ULIP products which is the new products that we have been selling.

Adarsh Parasrampuria: Your Par product persistency has improved drastically and we had discussion that till the persistency does not improve, we would not be too inclined to do that business. Is it time enough, you to move up the PAR mix, because that is a big reliever for margins?

Satyan Jambunathan: Our approach continues to remain the same that we do not target a mix. But what you mentioned is actually very relevant with the improvement in PAR persistency, it does make us much more comfortable to do that business.

Adarsh Parasrampuria: With the improving persistency experience, why haven't we taken any change in assumptions while calculating EV and VNB? What will make you take a change in those assumptions?

Satyan Jambunathan: Our assumptions for the saving products for 13th month persistency is 82.5% and our experience is about 87% overall. Our comfort will be there when we start seeing this translate across all the years in a consistent fashion. You will notice that we have had a very meaningful improvement in the 13th month, and we have also said this before that we are working on the other cohorts, we have seen some improvement come through. And hopefully as we go through FY19, we should be able to establish that the gains in the 13th month are really getting translated into later period as well and that would actually provide a meaningful trigger for us to look at it again.

Adarsh Parasrampuria: Beyond the 49-month persistency, long term lever could be on surrenders. What are the efforts taken to reduce surrenders in medium term?

Satyan Jambunathan: There are a number of initiatives that we have put in across the organization. Clearly, the way we are looking at that portion of experience into say that any customer who really wants to take money out, we do not want to put any impediments in it. But clearly if there is any distribution-led behavior which is resulting in churn, that is something that we would like to be much more careful about. With that in mind we have put in a lot of initiatives on the distribution side with respect to measuring performance. Surrender rates have become a very important part of this. If you recollect, earlier on we had mentioned that we have brought in premium persistency as a key lever in measuring performance internally, we have expanded the scope of that to include surrender rates as well. So, we do believe at least of the recent trend that we are seeing, we do believe that we have an opportunity to improve from where we are.

Adarsh Parasrampuria: You said that you don't want to obviously persuade them not to leave, but if you receive a request to exit from ULIP after the 5th year, is it okay by regulations and by law and IRDAI to give the call to customer and educate him that now is probably the least cost for him to continue?

Satyan Jambunathan: Engagement with the customer is always a positive and this is exactly what we do. We go back to the customer and try to bring to his attention that the bulk of the charges in the product is already incurred and staying on longer brings down his effective cost. More importantly if there is a savings objective that he has started off on, he should not withdraw it just because liquidity is there, and he should stay in till his savings objective is met.

Nidhesh Jain: On the sensitivity of EV and VNB, why is there sharp decline in sensitivity with respect to tax rate changes from last year to this year?

Satyan Jambunathan: Overall sensitivities are coming down as it's also a function of the improved profitability. Tax rate also is one of them. Even when we move to a higher tax rate, there would be an effective tax rate that would be applicable. Earlier when we were not operating on an effective tax rate at all we were measuring the sensitivity on a full tax rate of 14% something to 25%. Now we will be measuring the sensitivity of an effective tax rate of 8% something to what is the effective under a 25% regime would be. So that also comes through as a lower sensitivity to tax.

Nidhesh Jain: Your sensitivity now becomes one of the lowest among peers, while your sensitivity was the highest to tax rate last year. So, these are very sharp decline in sensitivity.

Satyan Jambunathan: We should look at sensitivities in the context of the base assumptions as well.

Nidhesh Jain: In the operating variance there is some protection change. Can you just elaborate?

Sandeep Batra: We talked about changes on the group APE calculation. When we calculate group APE, we have started recognizing the new customers which come on board as new business regular premium and the existing customers premium is renewal premium. The net impact is a positive VNB of ₹ 0.14 billion.

Satyan Jambunathan: It is not a variance. This is the definition of new business under a one-year renewable group term and the impact on overall VNB.

Nidhesh Jain: And the entire operating assumption change is just on account of that tax rate change?

Satyan Jambunathan: Large part of the assumption change is tax effect.

Nidhesh Jain: Can you share the share of Protection among retail Protection, group term, and mortgage?

Sandeep Batra: We have not disclosed that separately but what is important is that all segments for us have been growing.

Nidhesh Jain: Is it reasonable to expect that the mortgage based has grown at a higher rate than retail and group term?

Satyan Jambunathan: Yes

Siddhesh Mhatre: Your gross premium income including first year and renewal of FY17 is around Rs. 20,835 crore. But your March '18 renewal premium is just Rs. 17,857 crore. Why there is a 17% difference over there?

Satyan Jambunathan: This is on account of persistency. Also we don't always get the premium on due date. Some of that comes in with a few months lag. So, the eventual effect of this you will only know by the end of the first quarter how much of this has actually come through. The persistency numbers that we are publishing is a proxy to exactly this.

Siddhesh Mhatre: Your commission on first year premium has increased dramatically.

Satyan Jambunathan: It is a function of the product mix. The new product that we have been selling in this year have a higher commission rate. But even including a higher commission, the overall expense ratios have come down. Eventually from a profitability outcome or proposition to the customers, it is the total expense ratio that matters and not each element of it individually.

Prakhar Agarwal: Are we seeing some pricing or margin pressure from protection products?

Satyan Jambunathan: Different segments of the protection business are subject to different pressures. If I were to take the group term business that tends to be very price-sensitive market. If we look at the credit life business, that can be a function of what your partner is willing to accept. Retail business tends to happen largely through your own distribution. And to that extent while price is important at some point, by and large it is about the distributor taking a proposition to the customers.

Prakhar Agarwal: In terms of your tax rate sensitivity disclosures why have we changed our sensitivity disclosure to around 25% versus earlier that we used to give on 28.8%?

Sandeep Batra: We think 25 is a better rate. It is based on what the government has articulated to be the corporate tax rate over a longer-term basis.

Prakhar Agarwal: Earlier the sensitivity to EV was around 11%.

Sandeep Batra: We were earlier taking the gross rate which was 14%-odd, now weare giving the sensitivity at about 25% plus surcharge. You can take any number for sensitivity. We believe a 25% is simpler and is clearly articulated by the government that they would want all corporates to move in that direction**Satyan Jambunathan:** I think none of these sensitivities magnitude is intended to illustrate what the answer will be. It is only intended to show that if the change is this much then what happens.

Abhishek Saraf: Effectively in the fourth quarter obviously your growth came down, courtesy the higher base last year. But if you see in terms of the other players have also shown. So effectively our growth has been a bit on the lower side. So, what are the thoughts in the growth going forward?

Satyan Jambunathan: If you actually go to slide 12 and see our track record of growth over a longer period. You will find it fairly consistent and in line or better than the market. In a particular year this growth relative to the market seems different it is because of the different trajectory over a period of time. But the moment you look through this over a 3-year, 5-year period, you will find that it becomes much more consistent.

Abhishek Saraf: Do you think that the slow growth that we have seen this quarter will continue a bit more in the coming few quarters and obviously on a longer time basis it will probably normalize.

Satyan Jambunathan: We don't really think that there is anything that has happened in the last quarter which impact growth prospects going forward. A lot of the growth rate that you have seen in the last quarter across various players has been a function of the last year numbers and therefore it might be different across different people. Our fundamental view on the opportunity has not changed.

Abhishek Saraf: The margins expansion has been very strong. So now you think, given the product mix that we have, what could be the potential going forward in terms of expansion of margin from the currently high levels of 16.5%.

Satyan Jambunathan: We have not guided to a margin rate going forward, but the same drivers as we have spoken for margin improvements in the future continue to hold. Protection business, we still believe is an under penetrated market and has the room to grow faster than the rest of the business. Persistency, our own experiences at this point of time is better than assumption and going forward we continue to improve it across the various time horizon. And these should still continue to be drivers for us to improve margins going forward.

Avinash Singh: Your solvency is still about 250%, but with this strong growth in protection, what sort of a solvency comfortable band you would like to operate. When we are going in an area which is sort of an eating capital I mean a higher dividend is something that I would like to understand. What's the sort of your comfort band for solvency.

Sandeep Batra: Regulatory solvency is 150%. We could now reduce the special dividend that we have been declaring all this while, in order to conserve some capital. So, we really don't have a number per say, but yes, we would now like to start looking at measures to conserve capital.

Avinash Singh: In FY18 the dividend payout has even gone up.

Sandeep Batra: It is at the same level as last year. We had a 60% dividend payout and I think the difference in the number you are saying is because of the accounting treatment change in the FY17 from an accrual basis to cash basis . So that is the only difference. Our dividend payout has been at a similar level, which is 40% regular dividend and about 20% special dividend. As I did mention, we would be looking at reducing the special dividend during the course of the year.

Nishchint Chawathe: If I look at the protection business, you seem to have grown this more on the Banca side. Is my observation right?

Satyan Jambunathan: In the Banca mix of Protection has gone up, but our Protection mix continues to come from all of the channels. And agency is still a substantial contributor to it.

Nishchint Chawathe: Can you give the break-up of Protection across all the 3 segments.

Satyan Jambunathan: We have not given that out this time.

Hitesh Gulati: Do you have a tentative size for the Protection market. I recall that in the past you had mentioned something like Rs. 67 billion. So do we have any update in number for that.

Satyan Jambunathan: We think that the number is closer to about 100 billion now. it's not changed too dramatically. We have it on slide 36.

Hitesh Gulati: Could you give us an estimate of how different is capital consumption for the Protection product versus a savings product so that we can get an estimate of how the return on capital metrics, return on equity?

Satyan Jambunathan: It is actually quite different. One way of looking at it is just to take the solvency factors that are prescribed in regulation and apply them and see to the relative premium but one also need to keep in mind that the capital requirement for protection also is the function of re-insurance arrangement and it's not so easy to estimate. But at a fundamental level, protection business has much higher capital requirement than the savings business.

Hitesh Gulati: The 13.7% margin that we reported mid-year, we did not take the expense variance at that point of time. But was the tax change taken in that margin that was reported.

Satyan Jambunathan: No, it wasn't.

Sneha Ganatra: Going forward, how do you see the product mix, and what part of margin improvement is structure in nature

Satyan Jambunathan: We don't have a target product mix. The way we look at it is, protection and saving are 2 very different and distinct opportunities. Given the levels of penetration we think that the protection opportunity is much stronger than the savings opportunity. So, we expect protection business to grow faster than savings business. That fundamental view has not changed. The mix really is an outcome of what happens in a particular year. So that is the one factor which will drive margin going forward and as I said before persistency is the other aspect which can drive in.

Neeraj Toshniwal: I think the protection business has grown too fast than the street was expecting. Any color on the future course/outlook? Will it be stable at this rate?

Satyan Jambunathan: For protection growth, clearly 70%-80% growth rates are not something which will carry on for much longer. We do believe that protection still has the potential to grow much faster than savings. We haven't given any specific guidance on what it can be. But I wouldn't quite say that the 70-80 kinds of growth will continue. What also must keep in mind is that 71% growth also includes that element of how we are measuring group term new business this year. Without that it's been a fairly normalized growth rate.

Neeraj Toshniwal: Any number you have without that if at all.

Satyan Jambunathan: I think the most relevant measure of that reclassification is what is happening to value of the new business which we disclosed is ₹ 0.14 billion.

Neeraj Toshniwal: How the credit life growth is picking up?

Satyan Jambunathan: We have said at the end of last year and through this year, our focus has been on building partnership in that space. Some of those partnerships have now started to produce. The growth on the credit life for us has been a little faster than the rest of the protection business. We still are very positive about that opportunity going forward, keeping in mind the partnerships that we have been able to put in place.

Neeraj Toshniwal: In terms of the breakup you have given, on slide 26, is it fair to assume that, if you don't consider any variance or assumption change, four percent kind of improvement because of the product mix this year and going forward the kind of product mix that we would be having, so 16.5% can be adjusted for these variances to have a fair out look of your margin.

Satyan Jambunathan: I am not so sure you can do that because the product mix impact of 4%, some of it, as we have explained in the half year and 9 months call as well, came from savings product that we have launched during the year. So that's not going to be an incremental kicker for next year. Beyond this product mix increase can only come from protection mix increasing beyond where we are.

Abhishek Saraf: What would be your attachment rates in credit life and how has it evolved over 3, 4 quarters if u can just give some light on that.

Satyan Jambunathan: Across different partnership the attachment rate can be quite different. That's something which is still evolving to think that the current levels of attachment are not so high as to exhaust the opportunity. There is lot more work which can still happen on improving attachment from where we are. But we haven't specifically at this stage given the current attachment rate.

Abhishek Saraf: Why have you not taken the improvement of persistency into assumptions change? What is basically the policy for factoring in the positive experience change into operating assumption changes for the future flows?

Satyan Jambunathan: We are comfortable at the improvement that we have seen on 13th month. But we would like to get more comfortable with this initial improvement being carried through to later years as well. We have seen some improvement in the later years but we would like to see that see through improvement to stabilize. And then reconsider whether we want to reflect some of that into the assumptions. But at the end of the day, what is quite important was to make sure that we do not end up with any negatives coming through on account of this. We are much more comfortable doing the more calibrated reflection into the margins as the experience evolves.

Abhishek Saraf: On the mortality assumptions, do you factor the changes in that.

Satyan Jambunathan: Mortality assumption setting is a continuous process. If I look at our savings business, it is a fairly large and old pool of business, so it's much more reliable experience. On the other hand, the protection portfolio is a fairly young portfolio. So, one would like to see for some more time, how the protection portfolio mortality evolves before starting to meaningfully make any changes or assumptions.

Preeti RS: If you could comment on the competition in protection segment. Because everyone is talking about protection since it is the margin driver so can we see a situation where everybody is competing on the price and hence margins in this particular segment structure will decline going forward.

Satyan Jambunathan: The opportunity for protection itself is large. Our assessment of overall protection premium for the industry is about Rs100 billion. And when you compare this to the personal lines of the P&C businesses, slide 36, over 800 billion of premium tell us that there is a large gap even in terms of opportunity. And I am not quite sure, given this big gap on opportunity, competition becomes that much more of a relevant factor. Inherently if I look at the various elements of the protection business, the online business and group business tends to be much more price competitive. But typically for retail business, it is about taking the concept of the need for insurance, and then suggesting to the customer that he needs to be buy it. Price typically will start affecting when we are somewhere near high levels of penetration. But given the level of penetration we don't think price yet is a factor.

Another way of looking at it is, the price of buying a term life in India today is on par with what you can buy for certain international market. So, it is not that there is too much of price to give from a competitive perspective, because if you do that then you end up with an impact on profitability or may be even losses. So, I don't think in the short-term price is going to be such a big determinant. As the market mature, overall protection penetration improves, and as the underlying mortality of the population improves as well, I would expect to see meaningful changes.

Preeti RS: The additional riders that we have, in the name of product that is accidental death or the terminal illness. So are these rider margins accretive for us or dilutive, can we assume 60% to 70% margins on a plain vanilla term insurance plan?

Sandeep Batra: Terminal illness is built into the product itself. What we have is the critical illness rider our to protection products. On an aggregate basis they are accretive to margins here. During the year, we have also launched the standalone heart and cancer like products.

Preeti RS: What would be the sourcing of business from direct channel or rather digital platform in protection for us?

Sandeep Batra: It is a low single digit at this point of time, but is growing at a very fast rate. We are focussed into this business. I think while buying a saving / protection product, most customer think they want some kind of an assistance at the time of planning. So, while we are invested in the online channel where the customer can buy either through our own website or from web aggregators, the sales are still small.

Preeti RS: Will that be a critical cost cutting area?

Sandeep Batra: You are right if it becomes a significant scale, but at this point of time, given the amount we have to spend on technology, the cost structure is not significantly different from other channels. So, the cost drivers at an aggregate level is a function of the product, rather than the channel. **Preeti RS:** Because the way we are looking at it, for every ULIP you will have to write almost 20 protection policies. Given the difference in the policy sizes?

Satyan Jambunathan: That's right. That's from a revenue perspective, but then the profitability ratio can be quite different. The other thing we have to keep in mind also is that in online while you don't pay it upfront, we need to have customer today, it's still that people are not just waking up and buying a protection. And therefore, even the online sales that happen, has a lot of advertising that actually drives that behavior which at current point of time, it is in lieu of commission, but they neutralize each other. That's what Sandeep mentioned that today the cost structures are not very different. But as consumer preference changes, protection product becoming more of a bought product than a sold product, then clearly what you save will come through. And at that point of time, doing more online business can actually can be much more accretive from a cost perspective.

Nidhesh Jain: On taxation the change in disclosing assumption is our tax cost reflect the reduction in cost due to dividend income being tax exempt. Is that the change that we have done in this year?

Satyan Jambunathan: That's correct. What we have as a corporate taxation is any dividend income that is received is reduced from income in the computation of tax and that is what cost us the lower effective tax pay.

Nidhesh Jain: And that impact only share holder surplus or also impact policy holder surplus for taxation?

Satyan Jambunathan: Both.

Harshit Toshniwal: On the re-insurance part so currently most of the re-insurance we do is regarding the protection business?

Sandeep Batra: That's correct.

Harshit Toshniwal: In the re-insurance agreement, can you explain how much of cost or how much percentage of cost do I get back if I do the re-insurance?

Satyan Jambunathan: It's not like I get back any percentage of cost as such. At a portfolio level overall re-insurance premium to total premium is just about 1%. In the protection business it tends to be more.

Harshit Toshniwal: Around 50%?

Satyan Jambunathan: It will be much less than that. This is a function of what is the amount of risk that I am holding on my balance sheet and what is it that I am giving to the re-insurance.

Harshit Toshniwal: But when I am re-insuring a particular part, do I realize the profits upfront only?

Satyan Jambunathan: No, I don't. Once I have re-insured some portion, my liability stands reduced, against that I have a liability to the re-insurer. So, I don't get a P&L release at all at that point of time. P&L release only comes in if my actual mortality experience is better than my expected experience.

Harshit Toshniwal: Which segment does this generally happen. Is it in the credit protect part or in the retail Protection?

Satyan Jambunathan: In all of them.

Harshit Toshniwal: Can you through some light on what specifically are the changes in the new ULIP product, in terms of tenure of the product or the premium structure or the commission structure?

Satyan Jambunathan: This we discussed in the prior quarters as well. Effectively there was some change in the cost structure. We also have been selling a slightly longer term policies which is reflecting in profitability. It's the same effect which has been coming through in Q2 as well as Q3 quarters.

Nishant: There has been some HFCs which have claimed that the attachment rates for them are as high as 80%. So, is that what the industry would also be at, or are they like an outlier or the number for the industry would be a lot lower?

Satyan Jambunathan: We get slightly different attachment rates across different kinds of organization. Yes, there are some HFCs who will be running attachment rates that high. There will also be some banks which will be running attachment rates which are much lower. So, I don't know what the average for the industry is. But there are some HFCs who would be in that kind of attachment rates.

Nishant: Would a ballpark be above or below 50 for the industry?

Satyan Jambunathan: It is very hard to call what is the mix of credit life business coming from each partner and the specific attachment rates.

Sandeep Batra: Thank you gentlemen. And if there is any follow-up question please reach out to us..