ICICI Prudential Life Insurance Company
Earnings conference call
Half year ended September 30, 2020 (H1-FY2021)
October 27, 2020

N. S. Kannan:

Good evening and welcome to the results call of ICICI Prudential Life Insurance Company for the half year ended September 30 of financial year 2021. I have several of my senior colleagues with me on the call: Satyan Jambunathan, CFO, Judhajit Das, who leads Human resources, Customer service & operations, Amit Palta, who heads Distribution, Brand & Marketing and Products, Deepak Kinger, who is responsible for Audit, Legal, Risk and Compliance, Manish Kumar, who manages Investments and Asha Murali, Appointed Actuary, and also Dhiren Salian and Mukesh Boobana from the Investor Relations team.

Let me start with some of the key developments during the quarter.

On the distribution front, as you are aware, we are focused on expanding our partnerships to further diversify our distribution network. Specifically on bancassurance channel, we have been actively engaging in establishing corporate agency partnerships with various banks, from large private sector bank to new age small finance banks and payment banks. Last quarter, we announced our partnership with IDFC First Bank and the partnership has already started yielding results, with us having gained a significant share of the shop. We are now happy to announce our partnership with IndusInd Bank. The bank with its pan India presence caters to the banking needs of over 25 million urban and rural customers through 2,000 branches. We intend to leverage the bank's network to serve the protection and long-term saving needs of these customers. And even though these two partnerships were only recently brought on board, we have started to see significant traction in terms of distribution engagement and new business.

We also partnered with NSDL Payments Bank, a subsidiary of NSDL, the largest depository of India. NSDL Payment Bank is predominantly a digital bank and offers end to end digital banking products to 3.5 million customers. With this tie-up we now have partnerships with three of the six active payment banks.

The other key development during the quarter was the appointment of Mr. Wilfred John Blackburn as a non-executive Director, nominated by Prudential Corporation Holdings Limited. Mr. Wilfred is the Regional CEO, Insurance Growth Markets at Prudential Corporation Asia, and is responsible for steering 16 markets, across Asia and Africa. Mr. Wilfred is an industry veteran with close to three decades of diverse life insurance experience, and is qualified Fellow of the Institute of Actuaries (FIA), an MBA from the University of Bath and a BSc (Mathematics) from the University of Newcastle. We had already informed the exchanges earlier that Mr. Raghunath Hariharan, non-executive Director, had tendered his resignation as a Director of the Company with effect from August 29, 2020, while he continues to serve as the Chief Financial Officer of Prudential Corporation Asia.

Moving on to slide 3 on risk management, in the context of Covid-19, our approach to market risk continues to be that of not taking on risks that we cannot manage. Of our total liabilities, non-par guaranteed return products comprise only 0.6%. We continue to closely monitor our liquidity and ALM positions, and we have no issues to report. On credit risk, only 0.7% of our fixed income portfolio is invested in bonds rated below AA and we have not had a single NPA since inception.

Moving on to insurance risks, first mortality. While the spread of Covid-19 and resultant deaths is still rising in the country, our overall mortality experience, including deaths on account of Covid-19, continues to be in line with our assumptions. Further, at September 2020, we continue to hold additional reserves towards possible Covid-19 claims, although we have not had to utilise any amount from these additional reserves till date. In terms of persistency risk, our 13th and 61st month persistency ratios have improved from the ratios at the last quarter, and persistency ratios of other cohorts continued to be in a narrow range. The improvement in the 61st month persistency is a testimony to how we are building the business for the long term.

To summarise, from a risk management perspective, our clear approach continues to be to maintain the resilience of our Balance Sheet by offering suitable products and deploying appropriate risk management practices. Our solvency ratio stands at 205% at September 2020. Further, the Board at its meeting held on October 7, 2020 had approved raising capital by issuance of subordinated debt instruments in the nature of unsecured non-convertible debentures of up to ₹ 12.00 billion. While our solvency ratio of 205% is well in excess of regulatory requirement of 150%, given the fact that debt capital market is attractive from an issuer perspective, we intend to raise capital through this Issue proactively, to support future business growth, including the protection segment. An issue size of ₹ 12.00 billion, will add about 25%-30% to our solvency ratio.

I will now move on to our performance for the quarter. Our 4P strategic elements i.e. Premium growth, Protection business growth, Persistency improvement and Productivity improvement continue to guide us towards our objective of growing the absolute Value of New Business while ensuring that our customer is at the core of everything we do.

I will talk through our performance on the 4Ps through slide 6 to 10 and then conclude with a commentary on the VNB for the quarter.

Coming to the first P of our strategic elements which is Premium growth. For the quarter, our new business premium grew by 1% year on year to ₹ 29.57 billion, as compared to a decline in Q1-FY2021. Also in terms of Annualized Premium Equivalent (APE), there is a sequential momentum for the quarter, with Q2-FY2021 growing 78% over Q1-FY2021. Specifically, we saw an acceleration in the non-linked savings business, which registered a strong growth of 45% year on year for Q2-FY2021 and 119% sequentially over Q1-FY2021. The resultant 34% year on year growth for the half year was ahead of the growth rate of the overall market. This growth significantly contributed to the VNB for the quarter. It also helped our product diversification agenda, with H1-FY2021 mix being 46% linked, 48% non-linked and 6% group savings. The unit-linked business as well has shown a strong sequential improvement with Q2-FY2021 growing by 95% over Q1-FY2021. As a result, our APE was ₹ 22.88 billion for the half year. As we enter into the second half of the financial year, which is also important from the perspective of business seasonality, we intend to carry this momentum forward. We expect new partnerships that we are creating during this year to further provide momentum.

Moving on to the second P of protection business growth. With an APE of ₹ 4.46 billion, protection business accounted for 20% of overall APE as compared to 15% for FY2020. Based on disclosed results and market estimates adjusted for return of premium business, while we continue to lead the industry in retail protection segment, we believe that for the first time, we have also achieved a leadership in terms of overall protection APE including credit life and group term. Within the protection business, while retail protection continued to dominate our protection mix, we have seen strong growth in the group term business as well. Also credit life saw a strong recovery in Q2-FY2021 and ended at similar levels as last year. We are also encouraging customers to complement their life insurance coverage with Critical Illness cover and this initiative has started seeing early success.

Overall on the two P's of Premium growth and Protection business growth, I would like to highlight that based on total new business sum assured which includes both savings and protection business, we are the private sector leader with a market share of 12.5% for H1-FY2021, a significant improvement over FY2020 market share of 11.8%. This is despite a 32% decline in new business APE for the half year. We believe that this result of driving insurance coverage will help us in achieving our VNB aspiration.

On the third P of persistency presented in slide 8, as mentioned earlier, we saw improvement in 13th month and 61st month persistency ratios over Q1-FY2021. Our 13th and 61st month persistency for retail business and excluding single premium stood at 82.1% and 57.5% respectively. It would be worth mentioning that within this, 13th month persistency of the non-linked savings business is at the same level as last year i.e. FY2020, and the persistency of the protection business has improved meaningfully. Our persistency ratios continue to be one of the best in the industry. Beyond the premium payment term, containing surrenders is also important and it is gratifying to note that our retail linked surrenders have reduced by 20% as compared to the corresponding period last year, which is positive for VNB and EV.

On the fourth P of productivity improvement presented in slide 9, our cost to TWRP ratio was 14.3% for H1-FY2021 as compared to 16.6% for the same period last year. For the savings business the ratio was 8.8% as compared to 11.0% for the same period last year. Our cost ratios are one of the best in the industry and we continue to leverage technology. Satyan will talk about some of the technology initiatives undertaken during Q2-FY2021. Another key imperative for us this year continues to be to manage cost dynamically in line with emerging new business growth.

VNB

As a result, VNB for H1-FY2021 was ₹ 6.02 billion, as compared to ₹ 7.09 billion for the same period last year. In Q2-FY2021 we have arrested the decline, with VNB at ₹ 4.01 billion as

compared to ₹ 4.00 billion for the same period last year. This is despite our new business APE declining 23% in Q2-FY2021. The performance of VNB for the quarter is a strong indicator that our VNB journey is intact. Our VNB margin for H1-FY2021 stood at 26.3% as compared to 21.0% for H1-FY2020. The implied margin for Q2-FY2021 is 27.4%. Embedded Value has shown a strong growth of 12% for the half year to ₹ 257.11 billion at September 2020 from ₹ 230.30 billion at March 2020. Our AUM was more than ₹ 1.80 trillion at September 2020, a growth of 19% from March 2020.
I would like to mention that we continue to progress on our objective of doubling FY2019 VNB over 4 years.

To summarise the performance for the quarter,

1) Non-linked savings business grew 45% year on year, ahead of the growth of the overall market
2) Unit linked business almost doubled as compared to Q1-FY2021
3) Both of this led to the new business APE growth of 78% over Q1-FY2021
4) We maintained the private market leadership in terms of new business sum assured at 12.5%
5) Adjusted for return of premium business, we believe, we have now gained leadership in the overall protection market
6) Persistency and cost ratios continued to be one of the best in the Industry
7) And most importantly, we have arrested the VNB decline with improvement in VNB margins to 27.4% for Q2-FY2021

Moving on to customer service metrics. We continue to improve upon industry leading benchmarks on turn-around time for claims. The average number of days for non-investigated claims stood at 1.4 days for H1-FY2021. Similarly, over 90% of all service transactions were conducted by customers in self-help mode and renewal collections through digital mode increased to 80% in H1-FY2021.

Before I conclude, I would like to give a quick update on our wholly owned subsidiary, ICICI Prudential Pension Fund Management Company Limited (PFM). Our subsidiary distributes products under the National Pension System and is registered as a pension fund manager. This business is synergistic with our annuity business and thus is one of the key elements of our strategy. The AUM managed by the PFM has increased by 41% to ₹ 56.06 billion at September 2020 as compared to ₹ 39.84 billion at September 2019. This was primarily driven by an improvement in new subscriber share, which almost doubled to 26.5% in H1-FY2021 as against 14.8% in FY2020. The PFM got the Point of Presence licence recently and we have started scaling it up. Early results are evident, as in terms of new subscriber share for H1-FY2021, our PFM stood first among the pension fund managers registered as Point of Presence.

In conclusion, I would like to summarise our efforts and outcomes that have maintained the resilience of our business model through the difficult environment created by the pandemic.

1) Business resilience: Balance Sheet - Continued high quality of assets, strong liability franchise and calibrated risk management across insurance risks, resulting in a strong solvency ratio.
2) Business resilience: Products - Diversified product mix led by strong growth in non-linked savings, keeping in mind the emerging risk appetite of consumers.
3) Business resilience: Distribution - Diversified channel mix, new partnerships will result in solidifying resilience further.
4) Business resilience: Operational aspects - Return to normal of customer walk-ins to branches, further increase in technology and self-service adoption by customers as well as technology adoption by the distributors.

I now hand over to Satyan to talk through some of the details of our performance.

Satyan Jambunathan: Thank you Kannan. Good evening.

Our primary focus continues to be to grow the absolute value of new business i.e. VNB through the 4P strategy of Premium growth, Protection business growth, Persistency improvement and Productivity improvement.

The first element of Premium growth (slide 14): We have registered a strong sequential improvement with our savings APE growing at 102% to ₹ 12.32 billion as compared to Q1-FY2021. Within this, our non-linked savings APE for Q2-FY2021 grew by 120% sequentially and 45% year on year, well ahead of the growth rates for the overall industry. If you recall, we had mentioned that product diversification is one of the key element in achieving our VNB aspiration. With this strong sequential growth, we have made significant progress on our product diversification agenda. As you can see on slide 15, our product mix for H1-FY2021 was 46% linked, 28% non-linked savings, 20% protection and 6% group savings. As non-linked savings and protection segments are the more profitable segments, the diversification has also meant a higher VNB margin.

Moving on to distribution channels, all our channels have registered a strong sequential growth. For the agency channel, our focus has been to get more of our agents “digitally active”. For H1-FY2021, active advisor count was about 90% of the count we had in H1 of last year. We added 7,400 new agents, out of which about 6,200 agents were added in Q2-FY2021 alone. This was in spite of challenges with respect to the licensing given the lockdown environment. With ICICI Bank we continued to focus on protection and annuity. As Kannan mentioned earlier, we have been focusing on growing Critical Illness attachment along with the term life product. As we speak, we have been able to get to an attachment of over 50% of Critical Illness on term sales through ICICI Bank. Also we had growth of over 300% for Q2-FY2021 in Annuity business through ICICI Bank. Overall new business APE in Q2-FY2021 from ICICI Bank almost doubled as compared to Q1-FY2021. On partnership distribution, we saw strong momentum with 78% growth for Q2-FY2021. We also added 18 partners during the quarter, including the ones with IndusInd Bank and NSDL payment bank that Kannan mentioned earlier. The direct channel grew by 76% in Q2-FY2021 as compared to Q1-FY2021.

As a result, we continued to have a well-diversified distribution mix with distribution channels other than ICICI bank contributing about 65% of our H1-FY2021 APE. The retail business continued to anchor our new business, contributing about 87% of the APE.

The second element of Protection growth on slide 19: With an APE of ₹ 4.46 billion, the protection business was 20% of APE for the half year as compared to 15% for FY2020. While across most lenders retail credit was still lagging, for Q2-FY2021, our credit life business recovered strongly to end flat compared to the same period last year. In terms of total new business sum assured, we are the private sector leader with a market share of 12.5% for H1-FY2021, a significant improvement over FY2020 market share of 11.8%. During Q2-FY2021, we have seen some decline in new business APE from the retail protection segment. As you all know, with an objective of protecting the segment margins, we are the first ones to pass on the reinsurance price hike. However despite the price hike, based on disclosed results and market estimates, adjusted for return of premium business, we continued to be market leader in this segment. During the quarter, some of the companies have launched new products incorporating the price hike, and other companies seem to be in process or waiting for product approval. Given that protection is a long tail business, it's important for companies to have underwriting practices commensurate with the price, as risks will emerge over a period of time. Further, as Kannan mentioned earlier, we are encouraging customers to complement their life insurance coverage with Critical Illness cover. This is indeed a need of the hour for the customer and also value accretive for the Company. While there have been short term challenges in the quarter, given that the protection market in India continues to be significantly under-penetrated, we continue to believe it to be a multi-decade opportunity, and specifically for a company like us having a strong customer proposition and a wide distribution.

The third element of Persistency on slide 21: For persistency, we continue to evaluate ourselves on the metric excluding single premium for retail business. We saw improvement in 13th month and 61st month persistency ratios over Q1-FY2021, which stood at 82.1% and 57.5% respectively. I would like to draw your attention to 61st month persistency which continued to make significant strides by improving from 51.4% in FY2019 to 56% in FY2020 to 57.5% now. For the quarter, persistency ratios of other cohorts have been resilient with the ratios remaining stable across the cohorts. We expect the persistency ratios to revert to normal levels as we go through this year.

The fourth element of Productivity on slide 23: During the quarter we continued to see significant improvement with cost to TWRP ratio for the savings business at 8.8% as against 11.0% for same period last year. We have seen significant reduction in discretionary expenses, infrastructure related expenses and have also started seeing gains on employee cost through optimal deployment of manpower. Our cost ratios continue to be one of the best in the industry and we continue to leverage technology. During the half year, 97% of new business applications initiated via digital platform and more than 90% of service requests were completed through self-help modules.

Continuing our innovation journey, we consistently seek to offer new product propositions and adopt future-ready technologies. Some of these initiatives include Critical Illness riders that provide comprehensive coverage, Voice bot on IVR, which offer personalized interaction with human touch and extension of our chat bot through Google assistant devices. We also continued to improve the adoption of digital service architecture. I am happy to inform that our Company has been ranked 14th among the top 50 digital insurance companies by Germany-based Digital Scouting, founded by Robin Kiera, who was named by IBM as one of the top 10 global influencers in digital transformation in 2019. Our company is the only Indian life insurance company to make it to the list. This listing by Digital Scouting is a testimony of our efforts to build a world-class digital platform to empower and deliver an immersive experience to our customers.

The outcome of our focus on these 4Ps, as you may see on slide 25, has resulted in our Value of New Business of ₹ 6.02 billion with margin of 26.3% in H1-FY2021 and ₹ 4.01 billion with margin of 27.4% in Q2-FY2021. The VNB outcome for the quarter has been supported by the strong growth in non-linked savings business.

Within financial metrics, our Profit Before Tax (PBT) for H1-FY2021 was ₹ 6.41 billion, a growth of 8% year on year. In terms of components of PBT, we have seen higher contribution of underwriting profits, which is a net surplus generated from the policies underwritten, and transferred to Shareholders' account during the period. Our underwriting profits have increased by 32% to ₹ 3.93 billion as compared to the same period last year. Our profit after tax (PAT) for H1-FY2021 was ₹ 5.91 billion with a strong solvency ratio of 205% at September 2020. Our AUM was more than ₹ 1.80 trillion at September 2020, a growth of 19% from March 2020, driven by higher renewal flows and recovery of equity prices.

Our Embedded Value stood at ₹ 257.11 billion at September 2020 with the Value of Inforce Business at ₹ 169.23 billion. The growth in EV for the half year was ₹ 26.81 billion, almost twice that of full year FY2020 at ₹ 14.07 billion. During the half year, we saw a significant recovery in equity prices, resulting in economic variances being significantly positive and largely wiping out the negative for the full year FY2020.

To summarize, we monitor ourselves on the 4P framework of "Premium growth", "Protection business growth", "Persistency improvement" and "Productivity improvement to improve expense ratios". Our performance on these dimensions is what we expect to feed into our VNB growth over time. Thank you and we are now happy to take any questions that you may have.

Suresh Ganapathy: Two questions, Kannan and Satyan, I will go one by one. The total protection APE for the first half is down 10%. I know you don't give a complete actual split up in absolute billion rupees, but can you tell me what would have been the individual protection APE growth for the first half, growth or decline, whatever is the number, can you share?

Satyan Jambunathan: The individual APE decline was more than that, it was about between 15% and 20%. Overall protection was a decline of 10%, offset by the growth in group one year renewable term and in the second quarter, with the credit life ending flat.

N S Kannan: So that will be little over 15%.

Suresh Ganapathy: Now, so just to continue with this question, this minus 15% is way below your peers, some of your peers have reported 40% growth, some have reported 13% growth. Is it purely because of your price being higher than others and you have taken a conscious call to protect the margins? Is price alone the difference here or there is something more than what meets the eye?

N S Kannan: A couple of things I want to mention. This has been a quarter of increased competitive action on the retail protection front, from both the larger competitors you mentioned, as well as some of the smaller competitors who have recently increased their focus on this segment. We were the first ones to go to market in July with increased rates to offset the suboptimal margins on protection that the entire industry had in Q1. And I mentioned it even at that time that this has got nothing to do with our company alone, it has to do with the reinsurance pricing. And we could not do the price hike fully in the first quarter because of product approval process, etc. The price hike has brought the protection margin at similar levels as FY2020. That's one of the reasons why you saw the margin expansion also.

So, the question you are asking is whether this has led to volume impact. One big adjustment you will have to make is for the return of premium, which is included by several other competitors in the protection business. The order of magnitude of the margin is totally different of that business compared to a pure term business. Our focus on retail protection is pure term only; not on return of premium variant that ends up only increasing your ticket size but not the VNB. That is what I would like to mention about that business. And, at the end of the day, if you really look at the numbers, adjusted for ROP, despite the stiff competition from the cheaper products with lower margins, we are still the retail protection market leaders in the quarter and half year. And when I look at the current trends, we are seeing a sequential improvement of protection at the pricing levels which we have talked about. And last year, if you look at around the same time, we were flattish, we did not improve month on month during the same period. So I think it is only a question of adjustment and sequentially getting into year-on-year growth, and that is just around the corner for us. And the huge increases you talked about that the other competitors are showing, that really depends on the base they had the last year, which was far less for them compared to us. So those are the only reasons.

And I would like to just add another aspect Suresh; that we have to be careful about underwriting. This is a long tail business and risks will emerge only over a period of time. We can talk about a 90% margin, 95% margin, etc. But as the margin is computed with a PV of expected profit in the numerator, whereas it's a one-year premium in the denominator. So the cushion available is extremely thin. So it is important from our perspective to match the process, match the price, failing which the portfolio may prove to be quite difficult to manage later on. So as long as we are clear that we are the market leader, as long as we are clear that margins are acceptable to us, and that we are on the VNB doubling journey which we have articulated, we are quite happy to continue to wait.

Suresh Ganapathy: Thanks so much for the clarity. Now the last question is, we keep debating on this time and again, both from your product capabilities as well as on your channel distribution or intensity. Now, of course, Sandeep has taken a stance that he won't do par products through the bank branches, whereas if you will look at competitors, they are doing anything and everything through all channels, and all channels are firing on all cylinders across all products. So there is some restriction with respect to your ability to do this business through the bank branches. So, I just wanted to understand, can you convince Sandeep that this is also a product offering that everybody's doing and you can push that? And combined with this is also the non-par guaranteed products. Now that we have an upward sloping yield curve, FRAs being signed with foreign banks, and that is something which everybody is effectively using as a hedging mechanism, why is the reservation for ICICI Prudential to do the non-par guaranteed business when everybody believes that this is something which definitely can be done taking use of the FRAs? So can you combine these two questions and answer?

N S Kannan: So I will take the second part of the question first, then I will talk about ICICI Bank. Second part of the question on guaranteed products, I just wanted to assure you that we do sell guaranteed products, it's not that we are shying away from the guarantee products. We have not giving out a specific number, I can give you a colour, and it’s about 10% of the product mix for H1 is the guaranteed products. The only philosophy we have, as we have discussed in the past, is that of not taking on risk that we cannot manage. So, we don't want to give a very long-term income guarantee, something which cannot be hedged. So for our non-par products, the way we have done is that we first lock in our yields before offering it to the market. If you see our guaranteed non-par product yields, it is quite a good yield on a post-tax basis, which is very competitive in the market. It is just that we do not give a very long-term income guarantee, but we are quite happy to offer the product otherwise. And we have been offering this based on the capacity that we have already built up. And you are absolutely right that we also have the ability to do FRA. So to that extent, we will definitely be present in this product segment. It is already about 10% of the product mix. I want to assure you and the shareholders of this company, that in all channels other than ICICI Bank, we would be very happy to sell guaranteed products as well as participating products to the extent that we can take on the guarantees and we can manage to hedge the guarantees. And one of the reasons why our margins have gone up, why we have been able to put out 45% growth in non-linked segments is clearly on account of par as well as non-par.

On the ICICI Bank side, they have taken a call as a distributor that they don't want to distribute traditional products. I mentioned it in my disclosure in the month of April that they have taken this call and they are comfortable distributing ULIP as well as protection products and annuity. The good news is that they are such a big promoter of protection that they find various ways of doing protection; including pre-qualified offers, including dynamic underwriting and so on. This has been their focus. ICICI Bank has clearly turned out to be more of a VNB channel for me rather than a top-line channel. So, we can always keep talking to them, but my sense is that their focus will continue to be protection, annuity and ULIP. And already ICICI Bank is about 35% of our top-line. So, come December, the base will get adjusted in any case. The other banks have already started contributing 7% of our top line. With all the banks we have been adding, that has become a separate channel of 7% by itself. So given this, yes, when you go to January, the base effect of ICICI Bank will get fully adjusted. So we do not see any problem. Yes, we can continue to talk to them, but currently their stand is that they would rather be a VNB channel, pushing protection, pushing the annuity and making ULIP available, rather than going into traditional products. I don't think there will be much progress on that, Suresh, actually.

Satyan Jambunathan: If you look at the growth rate of the non-linked savings, it was 34%. Industry growth rate overall was minus 7% for that period. And even the fastest growing companies did not grow at more than 20% for the half year. So quite clearly, what we are doing in terms of focus on the non-linked savings where we are selling it, is indeed giving us a growth rate which is quite substantial.

Adarsh: So the question was, we have got a VNB positive number, basically two things. One is cost being lower and offsets the cost pressure and two is obviously the protection. On cost, I understand our cost is down by 15%- 20%, is that practical or is it actually long-term you can sustain as the volume picks up? That's question number one. And question number two, picking off from the last two questions, there is a gap of 15% to 20% of protection pricing. Now we all understand that this 20% gap would mean a lot in terms of VNB margin vis-à-vis related to other players. So how sustainable is it? So how long can you sustain at 80%-90% knowing this kind of pricing difference? These are the two questions.

Satyan Jambunathan: So the first question was about, if I understand right, whether the cost achievement that we have in H1, is it practical or sustainable? I think it will be a mix of both. The journey on cost for us overall for the half year, non-commission costs were down about 16%-17% for us over the same period last year. Within that, if I were to see, discretionary costs, which are more to do with business management and advertising, are down even more. Now, discretionary costs are a bit more flexible keeping the environment in mind. As the environment starts to improve and as we want to continue investing in growing the business, some of these will come back. Even within the non-commission, non-discretionary cost, which is really people and other related elements, there are some elements which will be permanent. So, some manpower efficiencies will be permanent, some rent savings, and the reduction in infra costs will be permanent, some operational savings will be permanent. What we are conscious of very clearly is, at the cost of reducing expenses, we are not going to stop critical functions such as expanding into new distribution channels or technology, which can give us longer term gain over a period of time. So in a nutshell, the cost reduction that you see, some of it will sustain, some of it we will let it drift back to the original levels as the environment improves.

Your second question, if I understood right, was with respect to protection pricing and price difference. I think, very clearly, we have seen some of the price differences also narrow as other companies have started launching their own products through the quarter. And some of that will really establish what the playing ground is going to be. It is not so much as what the price difference is, because even historically if you go back to pre-March 2020, there was always a price difference between the top brands and the other brands. What we have seen as a divergence in the current period is some of the top brands have also had a different trajectory of reflecting price increases. Our own view is that pricing is something which will be calibrated to risk and to process that suits the pricing. It is not going to be a situation of one price fits all or one size fits all. We will suitably calibrate price in segments where it is worth it and we will make sure that in segments where the risk is seen to be higher, we don't give up anything on price. Overall, our objective will continue to be to protect the margins on the protection business through a combination of better risk selection, better risk targeting, attachment of critical illness, and wherever possible improving the attachment ratio. And purely on the back of the retail distribution strength that we have, continuing to get growth in that business. So like I said in my opening remarks, yes, this has not been a very happy quarter with respect to year-on-year and some of it has also steeped in the base effect that we have had. But clearly, the fact that we have still been able to maintain leadership in that space, even with a price difference and our own calibrated approach to pricing and risk management, gives us confidence that the margin is something that we would like to protect over a period of time.

Adarsh: It is on this, I sort of understand, you do have a strong captive distribution in the banks. What would be the difference between captive platforms where ours is the only product vis-à-vis a third party platform where people are comparing things? So I am just trying to understand, is there a tactic advantage?

Satyan Jambunathan: Our strength has been our distribution that distributes only for us. We have had far less reliance on the open architecture platform as compared to some of the others and therefore to that extent, we can still take a calibrated view in open architecture platforms by targeting profiles that we are more comfortable with, and actually be far more extensive in our captive distribution. So it will end up being a bit of a mixed bag, but somewhere I think the strength of our distribution and the lower reliance on the third party competitive platform actually protects our trajectory a bit more than some of the others in the industry.

Arav Sangai: So my first question is on the EV. So there is a drastic improvement in the embedded value. Will it be possible to share the kind of an EV walk as to what is driving this expansion? Because I assume a lot is coming from economic changes. That is my first question.

My second question is a clarification on persistency. So, sir, if I am not wrong, we have seen a persistency of 82.5% and right now we are at 82.1%. So if that's the case, like you mentioned that protection has almost improved compared to pre-COVID and our savings business, apart from ULIP, are also pre-COVID. So how much of a difference will ULIP persistency still being affected, for the rest of the year to make to our assumption changes at the end of the year? That is my second question on persistency.

And thirdly, on the VNB. So, we have had quite a drastic improvement over two quarters in our VNB margins, and definitely it is driven by a better mix. But now as we stand at September 2020, we look at almost 60% to 70% of our VNB is coming from protection. Now, if I look at the industry tailwind and headwinds, we don't have any room for passing on any more price for our protection products. And as you mentioned that a lot of competition has also come into this segment, maybe by their undercutting prices and everything, but at the end of the day, the sector is becoming a ground for a lot of competition. So given that we have moved away from maybe a ULIP driven VNB to a more of protection driven VNB, how vulnerable are we to take this competition going ahead? Those are the three questions. Thank you.

Satyan Jambunathan: EV walk we tend to give once in a year. The reason we don't give it more frequently is that the business is seasonal, therefore, through the year, the changes are not really representative of a full year. You can't just annualize it and that's why we give it for a full year. Having said that, you made the right point. The growth in the EV by almost 12% over March has been significantly aided by positive economic variances. Like I mentioned in my opening comments, full year last year we had a large negative in economic variances. A large part of that has already been recovered into H1 this year, given the way the stock markets have recovered. So the growth is actually a reversal of the decline, if you will, that you saw in the last year. In any case, what it has helped us with is get a growth in EV which is almost twice of what we got for last year. This way it is not a bad place to be in. Because eventually, as I said this before, investment variance is a short-term volatility, but in aggregate over a longer period it should be positive. The second point that you made was with respect to persistency; 82.1% versus 82.5%, and whether it is in line with our expectation. 82.5% is the assumption that over a period of time that is what it will get to. Today what you see as 82.1% also means that these customers will continue to pay premiums over the next few months. So typically, we see this improving automatically over a period of time. So there are two ways of looking at persistency. One, on the due date how much am I able to collect? And second, beyond the due date, how much do I recover? What we are now structurally seeing from Q1 to Q2, is an improvement on collection at due date. When I then extrapolate this for later duration, very clearly, and that's what comes out in the variances also, we are comfortable with where we are as far as the assumptions are concerned. When we get to the end of the year, we will evaluate whether there is an opportunity to improve or not. But that is really a decision that we will take at the end of the year.

The third point that you made with respect to relying on protection for VNB. I have only one thing to say, at the end of the day, for a life insurance company, protection has to be the be all and end all as far as source of VNB is concerned. There are not many countries in the world where savings business are allowed to be done to such an extensive extent by insurance companies and therefore, the mix of savings in VNB is much higher in India. The way I would look at it is this. And we spoke about the target market being roughly 60 million people in the country, with a current penetration of 10% of that at 6 million. The providers of retail term insurance in the market today are six, at best seven. Even if you say 10 companies are going after 60 million customers today, I don't think we have to fall over each other to be able to grow. What you do see, however, is, some companies have not historically been very strong on protection, and they have to make a start. You will always see in any product category in any industry some kind of price disruption in the short-term. But to really expect that is going to be the way of the future in a market where opportunities are so large and providers are so few, I would not be so worried about contribution of VNB coming from protection. Having said that, and we spoke through our opening remarks as well, in the second quarter, in being able to get to a flat VNB, and this is during a period where the protection top-line was a decline in the quarter; clearly what has helped us is some of the other segments of business. In particular, the non-linked savings business and I spoke about how that growth has been actually is a little ahead of the rest of industry. That is something which has given us strength in the current quarter. So typically, if you see how we are seeking to get to our VNB objective, it is not unidimensional. There are four dimensions that we are expecting to feed into our VNB: premium growth, which is predominantly savings; within that, both unit-linked and non-linked. So that's two levers of growth of VNB. Protection is a third lever of VNB growth. Persistency is the fourth lever and cost is the fifth lever. So I would hesitate to say that our VNB growth is predicated on only one of these five parameters. What I would stand up and say is that, in shorter periods of time one ends up being a stronger outcome than others. So last two years, protection was dominating for us in the growth of VNB. This quarter, it was non-linked savings. So the very fact that we have so many levers is what gives us comfort that over a period of time we are not relying, in any fashion, on one source of profits, or one dimension of business to be able to get us to our VNB objective. I hope that clarifies the question.

Arav Sangai: So just one clarification, one follow-up on the VNB question. So talking at the ground level, I am getting a sense that we are not getting the kind of profiles that we might want to underwrite in the protection segment. So is that the case right now that there is a lot of demand, but that demand is not qualitative, like within the risk parameters?

Satyan Jambunathan: No, I don't quite understand where you got that feeling from. Because we are quite comfortably able to underwrite the profiles that we are keen on.

Prakash Kapadia: Apart from the lockdowns, what factors would have been affected APE? Is it rate hike in certain products, is it cash conservation, is it Banca channel? and as we look forward, as we have unlock happening in our country, and India doing relatively well, how does H2 look like, especially, given our seasonality of our savings products, so what kind of trends do we see? That's the first question. And on the ULIP side, what is the ticket size? How much has it declined from the peak? And when does the mass transition show, where are we in that journey, if you can throw some light, that will be helpful?

Satyan Jambunathan: If I were to talk through the various elements of business segments and where the growth or lack of growth has come from, the strongest growth has come from the non-linked savings business, both in Q1 and Q2. This is also very closely associated with the general risk aversion in the consumer space. And therefore, any product where people see some comfort in the maturity values or some assurance in the maturity values has turned out to be more popular. Whether this is the trend which will continue for a very long time, I do not know. But clearly, in this uncertain period, that is one demand element which we are seeking to capitalize on and in line with that, we have been able to grow that portion of our business by 34% in the first half.

The second part or the second segment is the unit-linked segment. Now, unit-linked is something which is typically associated with more affluent customers. It is something which is logically more associated with equity market and volatility in the equity markets. It's also something which is associated with the ability of a person to pay large premiums for a long period of time. Now, in the current COVID environment, there are a number of questions around this. Whether people will have jobs, whether salaries will remain unaffected. For self-employed people, how will their income be affected. So, very clearly what we are seeing as a behavioural pattern is a greater reluctance on the part of people to commit large amounts for long periods of time. Equity markets have recovered recently, but typically the insurance product is not a direct short-term play on the equity market. That tends to happen either through direct equity or through mutual funds. But the sentiment of a positive stock market tends to percolate with a little bit of lag in the sentiment of the typical unit-linked customer. So, any improvement in sentiment that you see in the stock markets would tend to come back into the unit-linked demand, but with a little bit of a lag.

Prakash Kapadia: The lag typically is what, six to eight months or even more based on your understanding?

Satyan Jambunathan: Generally, we see it at about six months or so. But again, I will go back to what Kannan spoke about earlier. In Q2, our unit-linked business was double our Q1 unit-linked business. So quite clearly, even if I am not yet on a year-on-year strong footing, the sequential trajectory tells me that there is greater confidence on the consumers' side. Looking forward into H2, some of our challenges on the unit-linked growth actually started from Q4 and therefore, from a base effect, Q3 will probably be the last of a very strong base for us. Q4 onwards, it should actually start giving us a far more modest base to grow on. What will be the growth rate in H2? Quite honestly, I can't at this point of time comment on it. But the trend that we are seeing in non-linked savings for us is quite strong. The expected base effect on unit linked from Q4 onwards is very real. Protection, we have had a bit of an aberration in Q2; we do believe that this is something that will come back. It's not just about retail or group, it is really about overall protection, because VNB comes from all sorts of protection. So our focus will be on growing all the parts of the protection business. So outlook for H2 is still going to be a VNB focused outlook. For the first time this year, in Q2 we were able to get to positive territory on VNB despite a significant decline in the APE. Our effort is the next two quarters will be, as topline growth recovers, to continue to get our VNB growing versus the same period last year.

N S Kannan: I just wanted to supplement what Satyan mentioned in terms of the protection side. In fact, given the aspects we have discussed about pricing, the fact that the credit life has revived much better for us, gives us a little bit of a leeway to adjust the process and the pricing in terms of protection. So I think that lever we are using effectively. So we are not too bothered about what has happened for the month and last year around this time, as I mentioned, it is flattish. So I think year-on-year protection should come back. The real issue is visible if I split the top-line issues with ICICI Bank and non ICICI Bank. You can back calculate the numbers because we told you that ICICI Bank accounts for 35% of our business today. So if you look at the non-ICICI Bank, actually in the months of August and September, we have started putting out a year-on-your growth; so that is already there. And to supplement what

Satyan said, if you go back and look at our numbers of bancassurance, you would find that in the month of January, ICICI Bank dropped quite a bit last year in the ULIP side. So that is when the base effect becomes favourable for us. So really the turnaround quarter will be the Q3 quarter; with Q4 we should be able to put out growth, to answer your question. At this stage I would not be able to predict exactly what kind of growth, as Satyan mentioned, but I think January would be the turning point in terms of base effect. Protection is something we can handle quite easily, that is not something you should bother. But overall top-line, I would say January is the base effect month for us.

Prakash Kapadia: One more thing, any financing facilities we offer to policyholders for continuation of policies or some other arrangements?

N S Kannan: We do have a portfolio of policy loans, which we can give based on the surrender value. But unfortunately, it is not allowed for unit-linked products. Our stock of policies as you know has been very ULIP dependent traditionally, though it is changing at the margin. So our portfolio of what is eligible for a policyholder loan is quite limited. We have been talking to the Regulator to see if after on a haircut basis, whether we can give a policy loan for ULIP. But so far, regulations do not allow any policy loan to our customers of ULIP. So that is a bit of a constraint. But we do have a portfolio for traditional products for policy loans that we have offered selectively whenever the customers had a loss of income or a situation where they are not able to pay. We have offered it to these customers, and all the companies do that actually.

Ajox Frederick: A slight continuation of one of the earlier questions. To get a bit specific, the question is, are we going for lower rung customers with stiff protection? So some of the changes which we seeing on the ground is, the change in the minimum income criteria and ITR requirements, instead of three years we are taking two years, and the profile of customers who are educated, I mean, that is coming down. So, overall, we get a sense that we are trying to cater to lower rung customers and we are seeing the pricing also coming down. So, I mean, what is your sense there? Or are we reading it too micro cosmic there?

Satyan Jambunathan: I don't think that is the correct reading of the situation at all. There is absolutely no bottom scraping as far as customers are concerned. In an underwriting process, when we are asking for evidence of income, there are different ways in which I can ask for evidence of income, and there are different evidences that are used. Getting an income tax return is one way of doing it, looking at a credit score is another way of doing it, asking for a salary is another way of doing it. So what you see on the ground at an operating level is what is the least disruptive, from a sales process but reliable from a quality of the evidence, which we are seeking. That is the way it operates. Throughout if you see, whatever the so-called price changes that you have seen on offer, these have actually been only for a specific better customer profile. There has been no price change which has ever been offered to a bad profile in our pricing at all. So, I actually don't think what you said is an appropriate reading of the situation at all. You have to keep your process calibrated to keep in mind that friction is reduced. This is something which has always been there. I don't know, maybe people following the insurance sector are far more detail oriented and granular than those following any other sector in the market. But the smallest of actions by any insurance company on protection is first known to the research community.

Ajox Frederick: Because we have always been pretty stringent on the underwriting process and again, from the ground, the process seems to have become more stringent with respect to video KYC and people going and seeing if the house he is living currently is owned or not. So are we seeing some of our policies getting stuck because of this incremental risk management efficiencies with the steps we are placing, and the issuance is taking a lot of more time that customers are saying, okay, I don't want to buy it now. So is there some of the policies that are being stuck in the process?

Satyan Jambunathan: Not really. The reality is that that from last year to this year, there have been changes to the risk appetite, given the reinsurance price. Last year to this year, there has been a change in environment, given the emergence and progression of COVID. Risk management practices through this period have to be calibrated to all of these environmental factors. I don't think you can ignore it and follow exactly the same risk management practices as you would have in a normal pre-COVID world. That is the reality of the way we will have to progress as far as risk management is concerned. Even when we look at the video underwriting. Yes, it is quite possible that when we started the video underwriting, our process efficiency was not as good. But incrementally, as video underwriting has got embedded, the efficiency of the process and subsequent completion also has picked up quite sharply. So, whenever you have new processes that you put on the ground, you do have periods of transition and adjustment. We are not perfect, we learn with it. But the idea with every passing month really is, how do we optimize and make the process more efficient.

Madhukar Ladha: I have a few questions. First, can you explain the margin move properly in terms of the mix change and the assumption change or fixed costs absorption? So, what would contribute how much into the margin would be helpful?

Satyan Jambunathan: No assumption changes during the quarter. Its driven by product mix and projected costs for the full year, keeping in mind that we do not expect a meaningful growth. We don't even expect a growth in the top-line compared to last year.

Madhukar Ladha: So, in this context, on a Q-o-Q basis, protection has sort of declined substantially in the mix, right. So, what is driving this on a Q-o-Q basis, will it be mostly fixed cost absorption?

Satyan Jambunathan: No, like I said before, it is a non-linked savings growth in the quarter. For the quarter non-linked savings growth was 45%, non-linked saving business in Q2 was 120% of Q1. From a mix point of view, it also went up quite substantially and that is what is contributing to the margin expansion.

Madhukar Ladha: And that is good enough to beat the decline in protection as well?

Satyan Jambunathan: Yes.

N S Kannan: Yes. First quarter when we had the call, we talked about the margins of protection being depressed in the first quarter because of the inability to pass on the pricing. Those were the two levers. Primarily what Satyan mentioned in terms of non-linked, one unit of non-linked replacing one unit of unit-linked is a significant a kicker to the margin. Full price has been passed on and margin restoration in protection has also happened in the quarter. Those are the two levers.

Madhukar Ladha: Right. Within protection, how much is the ROP product and how much is the pure term product? And can you also give, what are the margins for that?

Satyan Jambunathan: So what we call pure term in protection business, is entirely pure term.

N S Kannan: We have no ROP.

Madhukar Ladha: Okay. So you include that in the non-par savings line, then?

Satyan Jambunathan: Correct. Wherever there is an ROP, it is really about a non-par or a par. We typically offer ROP as a bundle, as a solution, which is a pure term bundled with one of the other savings products that we have.

N S Kannan: The pure term goes to the protection classification, rest of it goes to the base product. We think that these two are different products altogether, so don't mix it at all.

Madhukar Ladha: And what would be the margin contribution from each of them in terms of margin profile of these products?

Satyan Jambunathan: It is a standard one. I have par, non-par margin profile and I have protection margin profile. You have seen the non-linked margin for us in the disclosures for full year last year. We disclosed our margins across unit-linked, non-linked savings and protection, that's really the order of magnitude.

N S Kannan: The only blip on margin was the first quarter on protection. Otherwise we have restored the margin to last year. In order of magnitude I am saying. We would have actually got some more cost efficiencies this year, but order of magnitude you can take it as last year. The change in margin in this year has happened primarily because of the product mix change.

Madhukar Ladha: Just one more thing, when I look at your earnings filing in the exchange, when we look at the non-par life segment, the transfer from shareholders account continues to increase in the first half. So, that has gone up to almost like ₹ 703 crores versus some ₹ 466 crores last year. This is despite the fact that in the first half protection as such has not grown that much. So, what can be the reason for this?

Satyan Jambunathan: It comes from protection and non-linked savings. Non-par savings is part of the same segment. Protection, while there was a little bit of decline, but since the price change did not fully happen, new business strain was higher during the first quarter, and that is reflected there. So it is purely coming from protection business and the non-par business.

Deepika Mundra: Sir, you mentioned that about 10% of your business in first half was coming from non-par. I just want to understand, does that include the annuity portion as well? And then would that imply basically par was fairly flattish in the first half? Secondly, on ULIP persistency, while overall your persistency trend seems to be flattish, could you comment specifically on ULIP? Thank you.

Satyan Jambunathan: See, our way of looking at non-linked savings, and I have said this before and that's the reason why we actually talk about non-linked savings as a single pool. I don't think par or non-par are such distinct segments that they are distinct opportunities. You typically have periods of time when you have consumer preference maybe towards one in one period and towards the other in the other period. And that's the reason why we have tended to look at non-linked savings across both par and non-par as a single composite business segment from an opportunity context. Whether each of those grew or not, is really in context of where the base was. But I think what is important to us is that non-linked savings together for six months has been a 34% growth and for Q2 has been a 45% growth. I think that's the most important part, because it also feeds significantly into the margin profile.

The overall persistency improvement is actually driven by multiple factors. Clearly, protection persistency has gone up very sharply and it's also consistent with the desire to continue with the product in the current health environment. Non-linked savings persistency continues to be at similar levels as last year, so there has been a little bit of decline versus last year for the unit-linked persistency. But the sequential pattern of March versus June versus September, standalone unit-linked persistency as well is showing an improving trend.

Deepika Mundra: Okay, and sir, if I can just follow-up with one more question. Like you have done in the savings product, do you think that you would widen the net to include ROP business as well in protection? While you offer it as a bundle product with other savings, some of your competitors are pretty successful in ROP. So do you think this overall VNB accretion, does it make sense to go down that route?

Satyan Jambunathan: Of course, we will. But quite likely, we will not call it protection business, but we will do that business.

Deepika Mundra: Okay. So basically, that is something that you all are not doing at scale right now and you all will look to add?

Satyan Jambunathan: Yes, we will.

Mayank Bukrediwala: A couple of quick questions. On your guaranteed business, which is the ASIP product. One, how do you hedge that? And second, on a more technical point, your premium payment term on that is about seven to 10 years, and your entire policy term is 15 years. So from an interest rate risk, does the premium payment term matter or does the entire policy term matter? And I want to slip one more question in on the agency business. Can you give us a sense on whether the employees tied to our agency business, to what extent has that pool of employees grown in the last couple of years? So these two questions.

Satyan Jambunathan: On the first one, from an interest rate risk, it is both the pay term and the maturity term that are important. Our underlying investments at this point of time backing that investment are partly paid bonds with a corresponding same subscription period and the same maturity period. So effectively, the cash flows from our policy premiums are hedged by a direct pay-in to the party paid bond, with a maturity of a corresponding or same tenor. The only difference or mismatch that you have is, that you buy the bond at one point of time, your premium comes in over a few months. So that is a bit of a mismatch you may have. But otherwise, in terms of scheduling on an annual basis, it is very closely matched. As we go ahead and start doing FRA's as well, the idea will be to construct a portfolio which is a composite of some underlying cash instruments. It could be partly paid bonds, it could be long duration government bonds and also locking into yields that I can through a FRA arrangement. Eventually on risk management, our own comfort will be not just about interest rate sensitivity or duration matching, it will also be about how closely can we match the cash flows. Whatever is the yield underlying, therefore in the portfolio, is what we will be able to offer to our customers. So it's both the pay term and the stay term, which together determine the interest rate risk.

Moving on to agency. I think if I were to go back to five years or seven years, we would have said that the growth of our agency is predicated on the growth of number of employees in the agency channel. But over the past five years, though we have actually shrunk the agency employee base by maybe half, the agency business has actually grown 1.5x. From here on, the way we look at the agency business and people and staffing in agency business is really about saying that, yes, I will continue to add some employees to manage agents, but also I will be seeking to build a pool of agents or agent managers who operate on a variable compensation structure. So the idea in agency is more importantly to target agent hiring, not just about employee hiring. To some extent, an employee needs to be hired to hire an agent. But we are also going straight to hiring agents to be able to build that pool. I spoke in my opening comments, in full year last year we added about 23,000 agents. In Q2 itself we have been able to add about 6,500 agents. In Q1 we were lagging because of the challenges of conducting examinations. Our focus therefore continues on hiring agents who are really the last mile to grow the agency business.

Mayank Bukrediwala: Got it. If I can just slip in two follow-ups to this, one on the agency bit only. So, would you say that over the last three to four years, to what extent your agency channel margins might have expanded? I know you don't give the channel margin, but if you could give some sense on where or what expansion has happened. The second question is on the retail protection business. So net, net, VNB as a percentage of the sum assured, how has that moved on a Q-o-Q, Y-o-Y basis, if you could give some colour?

Satyan Jambunathan: Very difficult questions to answer, Mayank, both of them. On the agency side, if I were to go back a few years, the cost structure was such that agency would have been less profitable than some of the other channels. Today, from a cost ratio perspective, it's actually as profitable as any other channel and that's really the advantage we have been able to create over most other participants in the market that run agency forces. The other question on VNB per unit of sum assured, quite honestly, I don't have the math of that in my head. But as we go through the year, I will probably find a way to get that communication across and deviate from the pure premium related margin profitability that we talk about.

Mayank Bukrediwala: Got it. Thanks. No, I just asked the question because you have reiterated many times that it's probably important to look at VNB from a sum assured perspective.

Satyan Jambunathan: Yes, absolutely it is and that's the reason why the sum assured growth is such an important part of the way we are looking at our business. That's the reason why from a relevance in the market context, the sum assured market share becomes a very important part of how we are tracking the relevance in the marketplace.

Udit Kariwala: The question I had was that if we look at the protection growth, and enough has been discussed on the call, in terms of pricing and the multi-decade opportunity. But structurally one question I would like to ask, both Kannan and Satyan is that, in terms of contribution to VNB, and you guys have been highlighting that the focus is on absolute VNB, the proportion coming out of protection is the highest for you amongst peers. So, does that expose you more towards this kind of a pressure going forward wherein, you could say this is an aberration, but if maximum of your VNB is coming from protection compared to peers, then could we assume that you are more vulnerable when it comes to pricing war within protection, which is bound to happen, given number of people or number of companies who will like to explore that opportunity?

Satyan Jambunathan: Yes, and no, on this one. I don't think the answer is so straightforward. At the end of the day, like I said before, in answer to an earlier question, for a life insurance company, and it's actually been held up as a virtue in pretty much every other market in the world, that the almost entire VNB for the company has come from protection. I think it is only in this market that we want to look at protection as something which is itself a concentration in a life insurance industry. What is more important to my mind within the protection business is not how much of protection contributes to VNB, but what is the granularity of the protection business that I am underwriting. We operate in a market where awareness is not at a level where people wake up in the morning and want to buy insurance, and hence distribution has a very important role to play. Therefore, in our own mind, the diversification of sources of earnings, actually is less about how much of the VNB comes from protection, it is actually about where is my protection business coming from? Is it retail, is it granular, is there a concentration of distribution, is there a concentration of a product type, such as a credit life or a group term which is causing it? Those are the questions I would much rather address from a diversification of sources of earnings. Quite honestly, if I were to go back to just two or three years before, the same criticism was levelled at us that we were relying only on unit-linked business as a source of earnings. The fact that we have been able to move that to being so protection oriented, in a business where the reason to exist is protection, I think is something that positions us as a far more robust brand in the provision of protection business, even as we go ahead to exploit the opportunity.

Udit Kariwala: Okay. And just a follow-up to this. You mentioned about ROP adjustment, what about limited pay? Because that is also kind of, I agree, it will not reflect in sum assured, but if you could give some colour around that. If you are adjusting for ROP, if you adjust for limited pay how would the numbers kind of broadly look or what is the proportion of limited pay this year versus last year?

Satyan Jambunathan: Limited pay this year is lesser than last year. Regular pay mix has increased. We have not highlighted the specific proportion for the same in our disclosure. Which is why I have always guided everyone to look at sum assured trajectory, which is a more important indicator of the underlying core growth, if you will, as opposed to whether it is coming from an ROP or it is coming from a limited pay or from a regular pay. I still believe that the sum assured trajectory is a truer reflection of underlying growth.

Yash Sidana: Good job on the margin side as well as the recovery. You know, please consider my questions as an attempt to sort of really learn about an important part of this industry. So, the first question is, when I look at your direct business, right, it says it's about 12% of APE. Now, if I remove the 6% group, what part of the retail business comes from direct channel? And in that direct channel, what part of it is first party and what part of it is third party, presumably Policybazaar? If you can give me that and then I will possibly ask you another question linked to this.

Satyan Jambunathan: The split of business that we are showing by channel on slide 17 of our presentation and the direct that we are showing there is actually direct retail. The group business is a separate line that we are show at the end. So the bancassurance, agency, direct, and partnership distribution are all retail businesses, and group is the last line.

Yash Sidana: Makes sense. That is my mistake. So when you say 12.6% of APE direct, what are different channels here, like, what is digital, if you can just explain how does this split?

Satyan Jambunathan: So direct business for us consists of two parts. One is the pure online business that we sell on our website to customers. Second, is the business sold to our existing customers, more of upsell campaigns that are executed by people employed by us through sales employees or what we call proprietary sales force. That is more of a mixed online offline kind of pitching and a delivery model. That and the pure online sales on our website are the only two pieces which are sitting in direct. If there is any business which is web aggregators, it comes in partnership. If there is any business which from, let's say, one of our bank partners, originates on an online platform, we still give credit of that to that distribution channel and would put it in bancassurance.

Yash Sidana: Makes sense. So when you say web aggregator which is in partnership, so this 7.5% of partnership, how much of that is coming through web aggregator?

Satyan Jambunathan: It's a very small portion, shall we say, our exposure to web aggregators is actually quite small compared to some of the other participants. We have historically relied more on our tied channels of distribution and some of our partnerships, of course, are open architecture, but they are limited open architecture.

Yash Sidana: Got it. So that's where my question is. So speaking to some of the employees at Policybazaar, what they claimed is two things. One that as a part of new term insurance sold in the industry, they have 25% market share in this year. Of course, it could be a raised number, because physical distribution channels are not opening. We don't know what the normalized number would be. But this is what the number is what they quote. And the second bit that they quote is that, the loss ratios, so called the life insurance version of loss ratios, is significantly better through their channels, because of the way, the kind of data they take and all of that. So first of all, would love to hear from you, what part of this is true? And second bit would be, if this is true, this is a pretty alarming fact that there is one part of distribution of the most profitable product that goes into one channel, one player, who can obviously take a lot of economics away. I mean, that's the obvious bit, right?

Satyan Jambunathan: So let me just address the second part first and it's not like we have ever been absent from the web aggregators. Web aggregators have been partners with us and we have been doing a lot of business. In my portfolio, we have never seen web aggregator mortality experience to be very different from the other channels. So that's part of the hypothesis I am not sure I agree with.

The second part, which is your first question with respect to their share of the overall market. Quite honestly, I don't know, as there are no published statistics of that. So I don't know what it will be in overall terms. Whether the share of business includes return of premium business, excludes return of premium business, I have no visibility in that. What we do know is that we do not ignore any channel or partnership. Policybazaar is as important a partner to us as any other partner in the ecosystem. Even until last year, where pricing was a bit more established, we actually would have had one of the largest share of shop in Policybazaar. They may not have standalone been a very significant contributor to our business, but that's our distribution dynamics. But we have always been a meaningful contributor or share of shop in their place. Whether the first two quarters of this year are an indicator of the way things will be, I do not know. But the point I want to really make and leave with you, Yash, is that no channel is ever ignored by us. Policybazaar is a very important partner. And we keep looking at ways in which we can optimize and improve our presence on their platform.

Yash Sidana: That's very helpful. So would you say that, this channel, for you, as of now, is as profitable, obviously, from a contribution margin perspective because, obviously, you don't have to market or maybe you have to. But from a contribution margin perspective, is that channel as profitable for you as other channels are?

Satyan Jambunathan: Yes.

Yash Sidana: Okay. And just a bit of follow-up. Globally what people have done on the GI side, especially in the UK, as GI, auto and homeowners have really moved online in UK, especially, some of the insurers have sort of floated their own price comparison websites of sorts. So that channel doesn't remain monopolistic. Do you see that happening in India? Because term life, as it seems, is sort of rapidly going online and we would want that channel to remain non monopolistic for us.

Satyan Jambunathan: Quite honestly, I don't know at this point of time. Because it's also to do with whether the regulatory environment will permit it. At this point, I don't think as an insurance company, we are allowed to promote a web aggregator.

Sanketh Godha: I just wanted to understand your IndusInd Bank relationship. Maybe internally you might have sized the market opportunity given how strong their relationship with Tata's already. So, given it's a very big bank, do you think it will make a meaningful contribution in that sense for the overall business going ahead? And the second one which I had is, Satyan, you said that in non-linked business you are indifferent, whether it comes from par or non-par, but the focus is more on growing the non-linked part. So, is it fair to assume that the margins what you make in par and non-par are very similar? Because in par you sell largely Lakshya, which is a long-term plan compared to previously it was. So sir, a long-term par plan will have a very similar margin to say annuity or ASIP kind of a product? Those are the questions that I have.

Satyan Jambunathan: So I will come to the IndusInd later. First, par margin will never be the same as non-par margin. No matter what the term. Just the fact that the discounting of the long-term cash flows will make it smaller will mean that the margin even in the whole of life par product will never match a non-par product. So it's not about margin. The reason I clubbed the two together is more from a consumer buying mind-set and the product category as an opportunity by itself. Both of those are products which, from a consumer point of view, offer the comfort of some assurance on maturity value or complete assurance of maturity value. If you go through a period where a person is happy with some assurance with participation in upside, par works. If you go through a part of a cycle where there is very little faith in what can happen in the future and an assured return drives the decision, then non-par will work. From a customer point of view is why I chose to club it, not from a margin point of view.

Sanketh Godha: Satyan, just a follow-up on that. Will it be safe to assume, because the protection contribution in the Q2 has come off compared to what was in Q1. So, the bulk of the growth in Q2 in non-linked has happened from non-par because the margins are better there. And therefore we see Q2 margin at around 27.4% compared to 24.4% what we reported in Q1. Is it a fair conclusion to make?

Satyan Jambunathan: In Q2, non-par has grown very strongly for us, which is correct. With respect to IndusInd Bank, indeed, it is actually a very meaningful opportunity. What that opportunity will be over a period of time, time will tell. But like Kannan described early on in his opening remarks, we are getting into a spirit of partnership between the two organizations, which is actually helping us work very closely. So time will tell as to how successful we are able to make it, but it is indeed a very significant opportunity.

Ravi Mehta: Sir, I just heard you saying that limited pay protection had a better traction last year, which has come off given the environment. So does it mean growing term protection would be a big challenge because of the high base that limited pay has created?

Satyan Jambunathan: Not really. Because, like I said, the limited pay typically comes with a lower margin percentage. And as I was also discussing in the question from Mayank, the sum assured is the more important determinant of profitability. So the core growth of the protection business, I think, should still be measured by some assured growth. Whether we offer it through a limited pay or a regular pay is a revenue measure, which gives you APE. But from an absolute VNB, whether it is limited pay or regular pay for the same sum assured, it gives me similar VNB. That's the reason why I keep suggesting that one needs to focus on the sum assured more than on the premium.

Ravi Mehta: Sure, thanks. And one more question on protection, again. The earlier interactions indicated that some of the affluent customers going to the high ticket term cover, because of the medical not happening due to lockdowns and all, there were constraints on that and they were given some minimum cover that you can offer, and then you would top it up as the medicals and all open up. So I was expecting a sequential improvement which was not seen in Q2. So can you highlight around this point?

Satyan Jambunathan: Medical testing is still not that completely opened up. It is improving over what it was. What is also important is not just availability of testing facility, it's also the inclination of an individual to be willing to be tested. So it is a bit of a combination. So I don't think it will happen very quickly in that sense. Larger sums assured will still take a little bit more time to recover. But what we are seeing in our own progression, sequentially that portfolio is improving because more and more people are willing to and able to undergo medical testing.

Ravi Mehta: So we have a ready base waiting to be tapped, because you have already given them some days?

Satyan Jambunathan: No, unfortunately, the reality of life is that, much as you might want to do things in two stages, if you don't do it at the first stage, then the ability to convert a second stage actually becomes lesser. It's not as if you can actually stand up and say that all of this is opportunity waiting to explode. Effectively, it will be a lot of new prospecting that we will be doing which will drive the new sales.

Nidhesh Jain: Sir, on cost we have done a very good job in the last two years. Despite the pressure on top-line we have consistently delivered operating leverage. So how do you think, when growth comes back do you see further operating leverage playing out? And secondly, how should we see that playing out in better products for the customer? Because when I compare your products, whether it is guaranteed product or a par product, the benefits are very similar to competing companies. Ideally, when your cost structure is so great versus other company and we are a cost leader that should have been visible in the better benefit illustration for the end consumer. So how are you thinking about this cost leadership that you have been able to achieve in last two to three years to give you a competitive advantage over long-term?

Satyan Jambunathan: It will translate. The benefit illustration in a par product, it tends to be a little bit more complex. If we look at our track record of delivery of actual benefits compared to anybody else, it actually separates out how much better we have been able to do. A lot of sales with respect to par, tends to happen not on future bonus, but based on past track record.

So to that extent, systematically, we continue to do better than the rest of the industry and significantly so, that benefit will start to flow through to the distribution as far as the sales ability is concerned. One must also keep in mind that our entire focus on the participating segment itself is not a very old one, it's a more recent one. So the distribution scale up and the reach on par business will happen over a period of time. But clearly, we think on the par we have already created, through historical bonus track record, a clear differentiation with respect to most other companies. The same thing will also happen in the non-par segment. If you see in the space where we are offering non-par for products today, which is the ASIP product that we do, I suspect you will find that the returns that we are offering are at par or better than many others in the market. We do this without having any anticipation of lapsed profit to boost up the profitability. This is purely based on our relative cost advantage with respect to others, which is helping us even offer those rates and, therefore, get the kind of growth that we have been getting in that segment through the last quarter. So I would like to think that we are already starting to leverage the cost advantage through the non-par guarantee rate that we are offering. Across most other companies we will be better in terms of yield to customers even on the non-par.

Nidhesh Jain: Sure. Because of what I see that is in lending business cost leadership is a very important thing, while in insurance we think that it's not been highlighted very clearly, that cost leadership can also be a source of competitive advantage. Second sir, on the agency side, I have seen a bit of change in strategy where I have seen that deletion in number of agents has gone up in this first half versus historical run rate. So is there any change in strategy there?

N S Kannan: No, not really. It's just that we tend to revive the agency force from time to time, and people who are not producing at all for five years, there is no point in having them on the rolls. It just takes the number up. If you really look at it, the active agent percentage gets adjusted automatically. We thought that after making reasonable effort to revive people who are five years inactive, we may as well clean it up. You won't be required to read much more into that. Satyan has already given the numbers on how much we are adding, which is going up by the month. So I would rather focus on the incremental additions rather than one-time cleaning up exercise. Different companies do this cleaning exercise periodically, we thought this would be an appropriate time to clean up the non-active agents, that's about it. Nothing more to it than long-term non-active agents.

Nischint Chawathe: Just in the middle of all of this, how should we think about your overall product mix or product strategy? Starting from next year, when I guess we start with a cleaner slate, I believe, you have always spoken about growth in VNB and you have you thought kind of two legs, and possibly now three legs of VNB growth. So how should we really think about product mix in that context? And just one small one, on the far side, what kind of growth or decline did you report in this quarter?

Satyan Jambunathan: So from a product mix point of view, the way we are looking at it is that the unit-linked base is getting reset this year. Starting from the fourth quarter onwards, unit-linked base becomes more favourable. So from a growth point of view, and therefore a mix expansion, one might start to see unit-linked pick up a little bit more. Of course, eventually, where it will get to is also a function of how long the non-linked savings growth trajectory continues. Clearly, at least this year, so far, we have seen that as a significant driver of demand and, therefore, also of the mix. Like I said before, between par and non-par, we don't really differentiate as to what is the growth on one versus the other. We prefer looking at both in conjunction, because that's really where the opportunities come from.

Nitin Agarwal: Congratulations on good results. I have two questions. Firstly, on the non-linked savings business, where we continue to report strong growth backed by these new Banca partnerships that we have now, do you envisage a situation where the traditional savings segment can be higher than the mainstay ULIP business? Because that may mean that while ULIP mix come down from 80s to now in 40s, but it can still continue to decline here-on?

Satyan Jambunathan: Our way of looking at it is, I will repeat myself, that mix is not a target. Non-linked savings, in our view, is a distinct customer need and an opportunity at this point of time. Whichever channel we are able to build to deliver this product to the end customer, we are happy to grow there. We have no notions about what is the mainstream product or a mainstream category. We are very clear that every product category has got a particular customer fitment. As long as we continue to operate with that guiding principle and look at the opportunity, we are perfectly happy with whatever the outcome is.

Nitin Agarwal: Secondly, on the aspiration to double the VNB. While I must give it to the management team to stay committed on the doubling the VNB over four years, despite starting the year on such a weak note. But as you assess now, is confidence to deliver on this higher or would you want to assess business volumes after we surpass one more quarter?

N S Kannan: No, we have looked at it once again when we did the business plan for the year, then we re-did the business plan during the quarter. We are quite confident, Nitin. I don't think anything should come in the way. As I said earlier, the base effect should get adjusted in the month of January. So in the short-term, the VNB delivery will be through margin expansion and over the medium-term our top line should come back. So that in two phases is how we are taking it. So as of now, we will continue. Technically speaking, we said three to four years, and now we say four years. So to that extent, we have got a little bit of leeway already and that we spoke of it in the month of April itself. So from about 25% kind of CAGR, we had articulated, it is more like 19%-20% CAGR. That shouldn't be a problem at all.

Kishore Kaushal: I have a few questions. First, what is the contribution of par, non-par savings and individual protection? Second, Banca has delivered robust growth for leading players, but ICICI Bank degrew, what is the outlook going forward? And third is, we have a strong growth in group term, can you please share the breakup of group protection into group life and group term life for H1-FY2021. Thank you.

Satyan Jambunathan: Just to go back to your questions. One, with respect to the disclosure of the mix of protection, we do that on an annual basis. We will continue with that process. We will disclose it at the end of the year.

Kishore Kaushal: And second was, Banca growth has delivered robust growth for leading players but ICICI Bank degrew, what is the outlook going forward?

N S Kannan: So, there as I mentioned earlier, ICICI Bank's strategy has been around the protection and annuity and ULIP, rather than focusing on the traditional products. When the industry is around today 80% traditional products, this obviously has a consequence in terms of our top-line. But the good news is that from a margin perspective, annuity and protection are very high margin products. So given that ICICI Bank is becoming more like a VNB channel rather than a top-line channel. Having said that, as I mentioned earlier to one of the questions, that the base effect will start working in our favour as far as ICICI Bank is concerned, by January. So till then, we will have to really manage a year-on-year decline in ICICI Bank, and hopefully by then the base will get adjusted. So, that is the outlook. As a distributor, they have taken this call that, for their customers, they would be really bothered about lapsation profits going to the company or different set of policyholders rather than to the same policyholder. So that's a call they have taken. But that is a call as a distributor. But we are happy to distribute these products with distribution other than ICICI Bank. So that is really the channel dynamics. Other than that, they continue to be extremely valuable to us with about 35% of the top-line, plus also a significant contribution to the VNB. That's the way we are looking at that channel. The other banks, as you said, they may have taken a different call, but that is really up to the partner to decide what they want to do.

Kishore Kaushal: Okay. And my third question is, we have a strong growth in group term, can you please share the breakup of group protection into the group credit life and group term life.

N S Kannan: As I have already mentioned, the credit life has got about a 30% decline for the half year compared to the last half year. Second quarter, specifically, credit life was flat on a year-on-year basis. So it started coming back in terms of the revival. Group term, we had a very sharp growth, because given the pandemic and given a lot of clients, they want to take new policies for their employees or other constituents. Also those who are existing clients, they have gone ahead and enhanced the life cover available for their employees or other constituents. So the growth in group term will be far ahead of the overall growth rate of the group business. But within that, the credit life, we have been able to achieve roughly flat year-on-year in the second quarter.

Akshen Thakkar: Most of my questions have been answered. I just sort of wanted to push on one aspect, that if you look at your ULIP growth, obviously, like you said, from Q4 the base starts getting okay. But I don't know your thinking about that business, are you thinking about that drag being lower from Q4 or do you think you have a short-term getting back to growth in Q4 or Q1 or Q2 of next year, how are you thinking about it? Because the context of the question is that, even with ULIP actually coming down, it is still the 25%-30% of the APE, right, exit. So if that continues to decline next year, this year was unique in that sense. But then next year, do you get back to APE growth overall? And sort of, how do you think about that? That's the only question from my side. Thanks.

Satyan Jambunathan: So Q4 onwards, we are actually looking at that segment getting back to growth and not a reduction of drag. Reduction of drag is starting to happen already. With Q2 sequentially doing so much better than Q1, the decline in the unit-linked has started to moderate already. But we actually see unit-linked business as a distinct growth opportunity once we have been able to recalibrate the base. The recalibration of a base is really driven by a couple of factors. For instance the environment, which we are starting to see recover. Some of the distribution strategies, we will start to see that kick through in the base effect after we have crossed Q3. So it is really an expectation of growth on that segment from Q4 onwards, as opposed to reduced drag.

N S Kannan: Thank you very much, once again. We have spent more than two hours today and I hope because of that we have been able to answer all the questions. Having said that, my team and I are available for any residual questions you may have and look forward to interacting with you during the quarter going ahead. Best wishes to all of you. Please stay safe and good night. Thank you.
