

ICICI Prudential Life Insurance Company
Earnings conference call
Half year ended September 30, 2021 (H1-FY2022)
October 19, 2021

N. S. Kannan:

Good evening to all of you and welcome to the results call of ICICI Prudential Life Insurance Company for the half year ended September 30th of the current financial year 2022. I have several of my senior colleagues with me on the call; Satyan Jambunathan, our CFO; Judhajit Das who heads 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; Dhiren Salian, our Deputy CFO and Mukesh Boobana from the Investor Relations team.

At the outset, post the intense second wave of COVID-19 infections during the first quarter of this financial year, we saw significant reduction in new infections during the quarter gone by. Alongside, we have seen a significant pickup in the vaccination drive with almost one billion doses administered in the country so far. As the country continues its battle to contain the spread, our thoughts continue to be with the families who are grappling with health issues, lost lives as well as livelihood issues. We continue to follow COVID-19 safety protocols at our branches and 96% of our employees have got at least one dose of vaccination done. For the safety of our customers, employees as well as distributors, we continue to promote and adopt digital means for policy sales as well as servicing. During the quarter, we introduced a convenient and easy document pickup services for our senior citizen customers. Satyan will talk through the impact of COVID-19 on our mortality claims in the later part of the opening remarks.

Let me start by talking about a couple of developments during the quarter before moving on to our performance. I am happy to inform you that we have won two awards at the Insurance Industry Awards 2021 organized by the Federation of Indian Chambers of Commerce and Industry (FICCI). One is the "Claims and Customer Service Excellence Award" and the other is for "Innovation during COVID-19". The pandemic has been a challenging time for all but with the state-of-the-art technology solutions we have continued to innovate, empower and provide convenience to our customers and distributors. We believe these awards are a testimony to our responsiveness to the environment, customer sensitivity in these testing times and ability to innovate and give us the confidence to set new benchmarks.

Moving on, during the last results call, we had highlighted various initiatives undertaken by us to incorporate ESG principles in our day-to-day business activities. Continuing on our initiatives, we have provided our customers an option to invest in an ESG focused fund which is named "Sustainable Equity Fund" within our unit-linked portfolio. We have also launched an internal campaign "Green Calling." Employees are participating in activities like yoga sessions, walkathon challenges, plant a sapling, paperless work environment and usage of e-waste bins. As we speak today, about 1,400 employees have participated in various "Green Calling" activities instituted by us.

I will now move on to our performance for the quarter. Our 4P strategic elements i.e. Premium growth, Protection business growth, Persistency enhancement 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 slides 5 to 10 of our presentation and then conclude with a commentary on Value of New Business.

Let me start with the first P of our strategic elements which is Premium growth. Our Annualized Premium Equivalent (APE) grew by 35% to ₹ 19.77 billion in Q2-FY2022 resulting in a 40% year-on-year growth for the half year ended September 2021. With this, we have registered a strong year-on-year growth for three consecutive quarters now. Also, our APE for Q2-FY2022 saw a strong sequential growth of 62% over first quarter. Based on total new business premiums, the growth was at 32% year-on-year for Q2-FY2022 to ₹ 39.02 billion resulting in a 45% year-on-year growth for the half year ended September 2021. So, our market share based on retail weighted received premium stood at 7.6% for H1-FY2022 as against 7.2% in FY2021.

The strong growth in premium was driven by our diversified product mix as well as distribution mix. As you can see in slide 6, for H1-FY2022 the contribution from linked saving products stood at 48%, non-linked savings at 30%, protection at 17% and the balance 5% from group savings. On the distribution front, our focus on acquisition of new partners and investment in creation of new sourcing channels helped us maintain the diversified distribution mix as you can see from here. In our H1-FY2022 APE, bancassurance channel share was 39%, agency share was 24%, direct business share was 13%, the share of other partnerships was 9% and the balance was contributed by the group business.

Moving on to the second P of Protection business growth on slide 7, as you know protection products are available in retail, group term as well as credit life platforms. Given the continued pandemic environment, supply side constraints including revised underwriting guidelines and general reluctance to visit medical centers, continue to impact the retail protection business. While working on these challenges, we have also focused on opportunity in the group term business. Despite an increase in prices on account of revised mortality assumptions, our group term business has registered a very strong growth. Also, with pickup in credit demand and improved disbursements, we have seen higher growth in the credit life segment as well. As a result, our Protection APE grew by 21% to ₹ 2.81 billion in Q2-FY2022, resulting in 23% year-on-year growth in H1-FY2022. I would like to highlight that based on the total business sum assured, our market share has increased to 13.2% for H1-FY2022 from 12.5% in FY2021. With this we continue to maintain private market leadership on sum assured. Our efforts in encouraging customers to complement their life insurance coverage with critical illness cover have also contributed to the increase in sum assured.

On the third P of Persistency, presented in slide 8, we have revised the persistency definition in accordance with IRDAI circular on 'Public Disclosures by Insurers' dated September 30, 2021, which you would all be aware of and accordingly we have restated the comparative period figures. We saw improvements in 13th month and 61st month persistency ratios. Our 13th month persistency ratio has increased by 30 basis points to 85.1% at the end of September 2021 as compared to March 2021. Similarly, our 61st month

persistence ratio has improved to 51.6% at the end of September 2021. For the ease of comparison, we have also disclosed the persistence ratios computed as per the old approach, considering that this is a transition period.

On the fourth P of Productivity which is reflected in cost ratios presented in slide 9. Our cost to TWRP ratio was higher at 17.8% for H1-FY2022. For the savings business, this ratio was 11.8%. While the absolute expenses are higher as compared to the same period last year, the new business growth is higher than the growth in expenses. Our cost ratios continue to be one of the best in the industry and we leverage technology to improve our efficiencies further. Satyan will be talking about our technology initiatives during the quarter later in the presentation.

Alongside our 4P strategy framework, we continue to maintain a resilient balance sheet as you can see on slide 10.

On mortality risk, for H1-FY2022 gross claims on account of COVID-19 stood at ₹ 18.79 billion and net of reinsurance the claim amount was ₹ 8.62 billion as presented in the slide. This net claim amount includes settled as well as notified and in process claims. Further as of September 2021, we hold reserves of ₹ 4.12 billion towards COVID-19 claims. Satyan will talk about this in much more detail.

Our solvency ratio was close to 200% as of September 30, 2021, as compared to the required regulatory ratio of 150%.

On credit risk, only 0.3% of our fixed income portfolio is invested in bonds rated below AA and we continue to maintain our track record of not having a single NPA since our inception. Of total liabilities, non-par guaranteed return products comprise about 1.4%. We continue to closely monitor our liquidity and ALM positions and we have no issues to report to you.

Moving on to Value of New Business (VNB), as a result of the above drivers, as you can see on slide 11, VNB for H1-FY2022 was ₹ 8.73 billion, a significant growth of 45% over H1-FY2021. Given our APE of ₹ 31.96 billion, the resultant VNB margin was 27.3% for H1-FY2022 as compared to 25.1% for FY2021. As we have always articulated in the past as well as in the last results call, we continue to focus on absolute VNB growth which is our stated objective.

Before I hand over to Satyan to talk through some of the details, I would like to mention that we continue to maintain our objective of doubling our FY2019 VNB by FY2023, which requires a compounded annual growth rate of 28% over the current and the next financial years. With the VNB growth currently at 45% H1-FY2022, we believe we are on track to achieve this aspiration.

Thank you again and over to you, Satyan.

Satyan Jambunathan: Thank you, Kannan.

Good evening. Our primary focus continues to be to grow the absolute value of new business that is VNB through the 4P Strategy of Premium growth, Protection business growth, Persistence improvement and Productivity improvement.

The first element of Premium growth. A product range with propositions to suit different risk characteristics of customers has been a very important enabler of premium growth. In

terms of our performance on slide 15, we have registered a strong growth year-on-year across all segments. Our Annuity business grew by 97%, linked savings business grew by 45%, non-linked savings business grew by 42%, and protection grew by 23%, resulting in an APE growth of 40% year-on-year for the half year ended September 2021. More importantly, our APE for Q2-FY2022 saw a strong sequential growth of 62% over Q1-FY2022.

In terms of new business received premium for H1-FY2022, annuity business contributions stood at 20%, significantly higher than 15% in the same period last year. With a premium amount of ₹ 13.47 billion in H1-FY2022, we were one of the largest pension and annuity providers in the market. Our wholly owned subsidiary ICICI Prudential Pension Fund Management Company Limited distributes products under the National Pension System and is registered as a pension fund manager. This business is synergistic to our annuity offerings and is expected to support the growth of the annuity business in the future. The AUM managed by the PFM has increased by 74% over September 2020 to ₹ 97.48 billion at September 2021. In fact, as we speak, it has crossed ₹ 100 billion as well. The PFM has a market share of 15.7% in the private sector AUM at September 30, 2021.

With this growth, Protection and Annuities now constitute 45% of the company's new business premiums.

Moving on to distribution, we have continued to enhance our distribution network across channels. In the agency channel, the approach has been to ring fence our highly productive agents. We also added more than 12,000 new agents in H1-FY2022. Within the bancassurance channel, we now have a total of 23 bank partnerships. On partnership distribution, we have added 53 partnerships during the half year and now have about 700 partnerships across traditional and non-traditional distributors such as web aggregators, payment banks, small finance banks and insurance marketing firms. For the direct channel, the strategy has been that of upsell to our existing customers aided by analytics.

Coming to the performance of these distribution channels on slide 18, we saw strong growth across distribution channels. Our bancassurance channel APE grew by 30% year-on-year to ₹ 12.60 billion in H1-FY2022. Within this, ICICI Bank channel continued with the growth momentum seen since March 2021. Specifically, the annuity business from ICICI Bank channel more than doubled in H1-FY2022. Our new bank partnerships continue to contribute to a significant share of bancassurance APE. Our agency channel APE grew by 41% year-on-year to ₹ 7.55 billion. Direct and partnership channels grew by 49% and 39% respectively in H1-FY2022 over the same period last year.

The second element of Protection growth on slide 20. With an APE of ₹ 5.50 billion, the protection segment saw growth of 23% over H1-FY2021. Our total new business sum assured stood at ₹ 3.37 trillion for H1-FY2022, a growth of 35% year-on-year. We continue to be the private sector market leader with a share of 13.2% for H1-FY2022 as compared to 12.5% in H1-FY2021.

Recently, there has been a lot of discussion in the media on increase in reinsurance premiums for term policies as well as tightening of underwriting norms. Our reinsurer has intimated us about raising reinsurance rates. As we speak today, while discussions with the reinsurer are underway, we expect the final outcome to be a combination of price increase and applicable underwriting norms in line with emerging experience. Also, as demonstrated in the past, we would like to maintain the profitability of the overall

protection segment intact. In terms of business impact over the short term, we don't expect it to be material given that the pandemic situation is still live and the constraints in the environment continue. Over the medium term to long term, given the significant under penetration, we continue to believe that protection will be a multi-decade opportunity and specifically for a company like us which has a strong customer proposition and a wide distribution network.

The third element of Persistency on slide 22. We continue to have strong focus on improving the quality of business and customer retention, which is reflected in our persistency ratios, specifically, the early period persistency cohorts have shown significant improvement as compared to the same period last year.

The fourth element of Productivity on slide 25. Our overall cost to total weighted received premium ratio stood higher at 17.8% for H1-FY2022 as against 14.3% for the same period last year. Similarly, our cost to TWRP ratio for the savings business stood higher at 11.8%. While the absolute expenses are higher as compared to last year, the new business growth is higher than the growth in expenses and we would therefore not expect margins to be adversely impacted.

I would like to reiterate that our cost ratios continue to be one of the best in the industry and we continue to leverage technology. Some of our technology initiatives during the quarter include:

- 1) Ability to pre-fill forms by uploading an image of a KYC document, thereby improving policy issuance turnaround time
- 2) Enabling video verification and KYC authentication services at the distribution partner end to have a unified experience for a customer
- 3) Building an end-to-end digital as well as modular journey for on-boarding members in the group business.

The outcome of our focus on these four Ps as you may have seen on slide 27, has resulted in a VNB of ₹ 8.73 billion for H1-FY2022, a growth of 45% over H1-FY2021. Given our APE of ₹ 31.96 billion, the resultant VNB margin was 27.3% for H1-FY2022 compared to 25.1% in FY2021. We continue to focus on absolute VNB growth which is our stated objective.

Coming to some of the other financial metrics, first on COVID-19 claims.

As you can see from the chart on slide 29, beginning June 2021, we saw a significant reduction in new COVID-19 infections in the country; however, we continue to receive claims in Q2-FY2022, most of which were claims pertaining to Q1-FY2022 i.e. delayed intimations. We have also seen a significantly declining trend in these intimations across the months of this quarter.

As a result, our COVID-19 claims net of reinsurance stood at ₹ 8.62 billion for H1-FY2022. Each and every claim that has been notified at any of our touch points is accounted for in this number, even as they are being processed further. We have used preliminary information in the intimation of claims to classify them as COVID or otherwise.

Further, at September 2021, we hold reserves or liabilities of ₹ 4.12 billion towards potential COVID-19 claims. These include provision for claims that have been incurred but not reported as well as new claims over the balance six months of the financial year.

With a provision of ₹ 4.12 billion and net claims of ₹ 8.62 billion for H1-FY2022, unless COVID-19 claims in this year exceed ₹ 12.74 billion we would not expect any further negative impact.

As you can see on slide 31, the daily average number of deaths in the country has come down sharply during Q2-FY2022. Specifically for the month of September and October till date, the daily average number of deaths are significantly lower. This is also reflected in the significant slowdown in the intimations of claims on our portfolio that we have seen in September and October.

Within the financial metrics, Profit before tax for H1-FY2022 stood at ₹ 2.59 billion with a PAT of ₹ 2.59 billion. Solvency ratio of 199.9% at September 2021. Our AUM was more than ₹ 2.37 trillion at September 2021, a growth of 31% percent from September 2020.

Our Value of In-force business grew by 26% year-on-year and stood at ₹ 212.96 billion at September 2021. The growth in Adjusted Net Worth was muted on account of COVID-19 claims and the dividend payout. With this the embedded value grew by 17.5% and stood at ₹ 302.03 billion at September 2021.

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.

Arav Sangai: I have two questions. My first question pertains to if you all could provide the breakup of protection into retail protection and group term for Q2?

N. S. Kannan: We do that split only by the end of the financial year. During the year we don't give the breakup.

Arav Sangai: The second question again on the retail protection side. Since now the focus is shifting towards growth and we have been hearing about this reinsurance price increase. So, is there any sense about what might be the quantum of increase that we might have to undertake in our protection policy to maintain a profitability, any sense, any ballpark number as well?

N. S. Kannan: As Satyan mentioned, the increased proposal is being discussed with the reinsurers. I don't think we are in a position today to really talk about increase because still discussions are on. But our endeavour, our philosophy remains the same. That whenever there is an increase, and you would have seen based on empirical evidence, that we would tend to pass on that to the customer in order to maintain neutrality in terms of our profitability. I don't see our approach changing going forward as well. So, I have sort of a colour I can give you. In the short term we don't expect the impact to be material given that the pandemic situation is still live and the constraints in the environment continue. And also, with the general decline we have seen in the retail, at some point in time, the base also will get reset. So, we don't get too concerned in the short term. But if you really look at the medium to long term given the significant under penetration and also the fact that there is a huge sort of demand which is picking up on retail protection, we continue to believe this is a multi-decade opportunity. And specifically for a company like us where we do believe we have a very strong proposition and a wide distribution network, this should not really bother us. As we go through this environment, on one side we continue

to work on the challenges of retail protection, but at the same time we have been doing two other things; one is to focus on the group term segment. There as Satyan mentioned, despite the price increase to protect our margins, we have been able to grow the business in a very robust manner. That is something which we have been able to get the opportunity sized up much earlier. And also, we have been increasing the attachment of riders. So, that is why you have seen the 23% growth in protection on account of these initiatives. So, the approach to summarize will be: in the short term we will look at other mitigants even as we go through the pandemic. There is no point in suddenly increasing the growth in the retail business amidst the pandemic. So we will calibrate that business. As and when there is a price increase we will strive to pass it on to protect our margins; that is the approach we have. I think that has so far held us in good stead. And given our VNB aspiration also, this approach falls squarely within the kind of strategic objective we have. So we don't see any problem. We strongly believe that there is no point in rushing into it given the pandemic situation and calibrate it as we move forward and wherever there is an opportunity we will take advantage of that.

Arav Sangai: Just one follow-up question. Since we have been writing GTI for the last one year, how has the experience been in GTI and like are we still as aggressive as we were in H1-FY2021, will we be as aggressive as that going ahead. Also since the protection mix has kind of moderated to 14%, I just wanted to get a sense of what might be the mix we are looking at going ahead?

Satyan Jambunathan: It's not as if we have been focusing on the segment only in the last 12 months. We have been focusing on this business for a very long time. In the last 12 months we saw an enhanced opportunity arising out of this which we chose to take. From an aggressiveness of pricing, I don't think we have ever been aggressive in pricing. We have been aggressive in client engagement; we have been aggressive in pitching but I don't think we have been aggressive in pricing. Therefore, to that extent, all those policies that we sold before the second wave, of course for those policies claims are more than what we priced for. But everything that we started pricing through the second wave where we started reflecting expected COVID claims, from that, the claims are within what we expected it to be. So the schemes that we are renewing are on a profitable basis, we have no concerns as long as we are able to get that business on appropriate terms.

N. S. Kannan: Just to supplement what Satyan said, this growth we have seen in this segment is after calibrating the profitability and after losing lot of deals. We are very clear that we want to protect our margins. After increasing the pricing, after losing lot of deals, this is a growth we are seeing. So to that extent, we are quite confident and also we believe that this is an opportunity for focusing on larger corporates as they are have COVID protocols for their employees. Based on our own claim experience also, we believe at least in the second wave, the worst is over and the worst is behind us. Given that and also the fact that for group employees the extent of vaccination is much higher than the country average, we think that it's a good business to build and we will continue to calibrate, look at the profitability. But as of now we are very comfortable to grow at these rates.

Deepika Mundra: Firstly, just on the protection business again, on one hand, of course we are seeing the claim cycle essentially come down quite sharply. So, rather than being cautious on the protection growth, don't you see an opportunity to ramp up somewhere down the line or are you concerned more about the longer-term impact of COVID on both mortality and mobility? Secondly, on the potential price increase that could come through

in the business, again, does that impact the VNB doubling guidance at all if you are likely to see any reduced growth because of competitive activity in the segment?

N. S. Kannan: Let me answer from my perspective these two questions. I would like to have Satyan supplement. First, we believe as a company that the long-term mortality or morbidity is too early to take a call based on the COVID impact. I think lot of studies are going on and will go on and we need some time before we judge the real long-term morbidity or mortality related to COVID directly. But to answer your question, we will continue to have a strong presence in this segment. It is not that we are getting out of the segment or going slow on this segment. It is just that while the demand is there, supply constraints are very high. We want to calibrate it so that we don't take any missteps in writing a 40 to 50% margin business. And as you know when we say that the margins are something like 80-90%, they are based on one year premium. So, to that extent it's more a mathematical number than having enormous cushion in terms of ability to undercut. So, we do not believe that we should be undercutting, at the same time we do not believe that we should be getting out of the segment. All I am saying is that it will be a much calibrated approach and in sometime you will see that the base effect will catch up. Already we have seen weakness in this protection in the two quarters, but some point in time it will stabilize. And then we will start growing. We are seeing the signs already on a sequential basis. So, to that extent I want to assure you that we will very much be there in this business. Second, on price increase, you asked a question that if we will pass on. That is our strategy as I said in the past. We should be able to pass on and given the huge under penetration we do believe that there is enough appetite. Affordability will not become a big issue even at the increased pricing is what we believe. But we have done a few sort of sensitivities to see what kind of protection will impact our overall VNB aspiration and we are happy to confirm to you that given the way we have diversified our product mix today, compared to being just a 90% ULIP wealth management-oriented company, we are a much more diversified company into retail insurance. So, given that, we don't see any issue when it comes to doubling our FY2019 VNB irrespective of what happens in protection. That's what I can confirm to you.

Satyan Jambunathan: If I may just add one more point here. I know we will be doing a lot of discussion on the protection business through the whole of this call but all I would say is this. In this second quarter the protection mix was 14%. It is probably one of the lowest we have seen in a while. Yet if you see the overall VNB trajectory, I don't think it was really challenged. That is one of the factors which really gives us comfort that we are not a one trick pony anymore. I have said this before, we have four sources of profits: linked savings, non-linked savings, retail protection, group protection. We are getting to a stage where each of these has a very even balance in the overall VNB pool and therefore if one of those for a period of time has to take an impact because of environment so be it, the others pretty much will step in to fill the gap as we go through this cycle. So, I would say that we are far less concerned about any of these single elements any more, than we would have been a couple of years back.

Deepika Mundra: It seems looking at the claim and the pending reserves there has been a minor top-up in reserves, is that correct for COVID?

Satyan Jambunathan: Effectively yes. In absolute terms it is a bit of a drawdown. At ₹ 5 billion of COVID provisions at the end of first quarter, we now have ₹ 4.12 billion. But

effectively because one quarter has passed and my prospective claim provision for COVID is now for two quarters instead of three, yes, it is strengthening to that extent.

N. S. Kannan: Just to put the numbers, ₹ 5 billion was the actual intimated claims in first quarter on account of COVID and another ₹ 4.98 billion or let's just round it off another ₹ 5 billion we had to cover IBNR and the future claims. So that was what the situation was at end of Q1-FY2022. When I am talking about Q2-FY2022, in Q2-FY2022 itself we have taken a provision of ₹ 3.6 billion. So, that is what has gone through in terms of intimated claims. And we have left with ₹ 4 billion of future reserves but just to take care of only the next two quarters. So, one way of looking at is that a ₹ 5 billion of reserves has become ₹ 4 billion. So, to that extent, you can say ₹ 1 billion has been drawn from that. But again, we have moved forward one quarter as well. So, this is the full mathematics behind the reserving. And given the trajectory of claims we have seen at this point in time we can make a statement that ₹ 4 billion is more than adequate but we will see how it progresses as we move forward.

Prakash Kapadia: A couple of questions from my end. On the ULIP, is it fair to say we will see a positive kind of growth after years of de-growth? And on the ULIP journey where are we in the mass market target segment, from the HNI and the larger ticket size, if you could give some color on that? And secondly, on the claim processing side, is there any backlog as yet or we have managed to clear the backlog in terms of the operational hazards coming into it and anything major pending at our end?

N. S. Kannan: Let me just start off with ULIP, the first part I will answer then I will hand it to Amit to talk about it. Yes, ULIP growth is very much back. If you really look at the segmental numbers which Satyan talked about, we are seeing a ULIP growth at about 45% in the half year compared to the first half of last financial year. So, to that extent the growth has come back. And we believe that some of the initiatives we have taken such as the introduction of the 'Balanced Advantage Fund' has really helped us to get that growth. Even moving forward, from affluent customers' perspective, last week we have launched a new fund towards ESG, which is called the 'Sustainable Equity Fund'. We believe that can also attract a new set of customers including younger customers and affluent customers into the ULIP. You talked about on the mass side how do we want to play ULIP. I will ask Amit to answer on the mass and mass affluent side, and Satyan will take your question regarding the operational aspect you talked about.

Amit Palta: I would like to just bring the point that three years back the entire dominance or the large proportion of business that we used to do was on unit link business and was largely through affluent customer presence that we had at that point in time. And while we stated our objective to diversify and go beyond affluent customers, we were always sensitive of the fact that we were not to vacate that segment which got us to where we were till three years back. We had a lot of regard and respect for the strategy that we had in the affluent segment. We wanted to, as a conscious step, look at not being fixed about the product suiting a customer segment, but walk the diversification route to provide more options to the customer in the affluent customers. So, what we have seen over a period of last year and a half or so is that, a lot of affluent customers have started exercising their choice on guaranteed range of products. And even while the market sentiment has turned positive, we have actually seen quite a few of our affluent customers looking at diversifying their portfolio into non-linked business as well. So, we will continue to offer wherever the opportunity arises and offer multiplicity of products, whether it is linked or non-linked and

not carry any bias about any specific product category. We take a lot of pride in making products available and leave it to the choice of the customer to decide what he thinks and feels is most appropriate given the macro environment. And coming back to mass and mass affluent. Like what we mentioned about affluent, we don't want to pre-decide on what is the most relevant and appropriate product for mass and mass affluent. The HNI customers have surprised us by moving into more conservative and traditional range of products over the last few years and hence I will not carry any notion about mass and mass affluent again making a choice which could actually change as the environment changes. So, that's how we want to stay flexible, we want to create products, make it available in the basket and allow customers to make a choice on what they want to go for.

Satyan Jambunathan: On the claim settlement, I just want to say that the number of claims that we got in Q1-FY2022 and through the early part of Q2-FY2022 has been so overwhelming. We have not cleared the backlog. We have been able to ramp up capacity to 4x what we used to do before. We are working hard at clearing it. Hopefully in the next month or so, we should get past most of them, but we still do have a backlog of claims just given the sheer volume of what came through to us.

N. S. Kannan: But just wanted to assure you that the financial liability arising out of all those whether settled or not has been fully provided and the actuarial liability based on an estimate also has been taken into account. So, that I want to assure you.

Prakash Kapadia: Is it fair to assume given the buoyancy what we are seeing in terms of the APE growth, our cost to TWRP ratio should trend lower in the second half?

Satyan Jambunathan: Cost to TWRP ratio will be elevated for a period of time because the metric as a denominator has total premium including renewal premium. While the new business premium has been seeing growth, the renewal premium has not been seeing that much growth despite an improvement in persistency. But more importantly what affects margin is whether the increase in cost is in line with new business or not. And if you see the cost numbers for the half year, costs have gone up by 30%, new business has gone up by 40%. So, we are quite comfortable that this will not take away from margin. If this productivity improvement that we are seeing of new business APE per employee increasing, as it has, I would expect that to be a positive contributor to margin over a period of time.

Avinash Singh: On the first one, if you can just provide some color on lapses and surrenders because I see that data is not available in the presentation. I ask because on the renewal premium growth side I still see some sort of a weakness and that is not in a quarter, but for quite some time? And secondly related to this, we have been doing fantastic on sort of a forging new partnership, doing really good on digital, but if I go beyond premium and look at the number of new business retail policies that is somewhat not growing for us many years. I mean considering that okay we are forging new partnerships, we are going through the small ticket protection, I would have expected that a reach in terms of policy count would have also grown over the last three, four years?

N. S. Kannan: Let me start with the response to both the questions then I will request Amit and Satyan to supplement. On the first issue of renewal premium growth being weak because of surrenders or other aspects, so that is not really a big component. The larger component is that after a couple of years we have started growing only now. So, to that extent if we just model our growth of APE, it has been quite weak. If you look at for

example, FY2019, FY2020, we have been declining in FY2019 and FY2020. So, correspondingly the renewal book which is available itself is lower compared to the previous year. So even if the persistency is holding up well, and in fact improving, it is not meaningfully adding to a growth in the renewal premium. That is the primary reason. Because if I look at the surrenders or persistency and everything, that is ultimately reflected in our assumptions in our VNB calculations. So yes, of course surrenders tend to be a little higher in times of the bull phase of the market or the robustness of the market because people do get into a profit booking kind of a mode in ULIP policies. But other than that, we don't have any adverse trends to report. It is primarily on account of the past year's APE growth being weak rather than caused by surrender or anything. So, I just wanted to assure you on that aspect. Coming to the second question, I totally agree with you that this is something which is actually plaguing the industry in terms of not being able to grow in terms of the number of policies. It is not just with us. It has been generally with the industry you would see the numbers put out by the regulator that overall number of policies or number of lives if you will that has not been growing. Here I just wanted to tell you that we have been quite proactive in terms of taking steps. I would request Amit to quickly talk about a) the initiatives and b) the early results arising out of this initiative of focusing on the new customers. So Amit, if I can hand it over to you.

Amit Palta: First of all you're right in terms of number of policies the challenges that were experienced in Q1-FY2022, I would like to categorize it into two issues that industry was facing in Q1-FY2022; one was of course the activity dropped drastically just before and during the wave 2 which led to lesser number of customer engagement opportunities which means that more and more customers were getting engaged on a virtual platform and number of policies were getting impacted, interface with distribution as well as with customers being engaged with distributors was coming down. So, that impacted the number of policies that was one. Second impact that we saw was what we have experienced in overall protection as a space. As you know almost 40% to 45% of the number of policies in the industry specifically in private space was contributed because of protection line of business. So, protection number of policies coming down was another impact that we saw in Q1-FY2022 and also in Q2-FY2022. So, these were the two things; Q1-FY2022 impact on the business and two is protection business getting impacted for entire H1-FY2022. So, these are the two things which adversely impacted number of policies in a large way to the overall industry. For us what we have done is that instead of getting bogged down by the impact that we saw because of wave 2, our entire focus was about building our activation process with new partners, new advisors and getting them on boarded and be productive as early as possible to compensate for any drop in number of policies that we had from our existing distribution; two, we ran through various initiatives to build an appreciation for being present right across mass, mass affluent and affluent customer segments and we ran quite a few internal campaigns to build engagement on a digital platform to mass and mass affluent customers which led to a number of policies growth. In specific segments, if we were to look at the initiative where it was directed, we actually saw a growth of almost 35% to 40% in specifically later part of the second quarter through these initiatives where we got newer customer acquisitions to be driven on the back of this campaign that we ran internally. And third, of course, a new product category. We actually opened up a new customer segment which was 50 to 58 year, which is typically a customer who is nearing retirement. That is by opening that new segment, which was earlier not buying life insurance, get them to buy, deferred annuity was another area in which we saw new customer acquisition really scale up over a period

of last three to six months. So, these are the specific initiatives that we did to increase number of policies but I guess that is now behind us with markets opening, economy opening and activities are now getting closer to the normal levels, we do expect customer engagements to come back to the regular normal levels and probably number of policies from here on will start growing.

Nidhesh Jain: On the VNB margin, if I look at full year last year and this H1-FY2022, VNB margin has expanded almost 200 basis points but product mix on overall basis has remained pretty stable. So, what is the driver for VNB margin expansion in first half?

Satyan Jambunathan: Pretty much product mix. If you see full year last year we had a protection mix of 16%, first half is about 17%. Give or take that is the big reason for the change in the margins.

N. S. Kannan: At the margin, some of the businesses which have grown well like annuity and non-linked savings, they have also helped, because as you know their margins are higher than ULIP margins. So, that is also sort of helped though it is not as high as protection but it is better than some of the other segments of our business.

Satyan Jambunathan: You're right, retail protection there was a bit of a drop, and group protection there was a bit of an increase, so there's a negative, positive coming from there. And also, like Kannan said the annuities and non-par mix became a little bit more, so that helped it. So, overall, it's still a product mix, some pluses some minuses which is settling down to an overall number of 27.3% for the half year.

Nidhesh Jain: Within bancassurance, how the ICICI Bank has done if you can share what is the percentage of business which has come in this first half that will give us some perspective how the ICICI Bank and non-ICICI Bank has done?

N. S. Kannan: If I really look at the bancassurance breakup, I said that 39% came from bancassurance in the first half of this current financial year. So, roughly about 28% will be ICICI Bank and about 11%-12% from other banks. Actually, it's a little bit of rounding involved; it's more like a 28% plus 12%, that is how shaping up. So, 28% has been holding steady for some time now. That means that definitely from a top line perspective it is not a drag on the growth. And as we mentioned in our opening remarks that ICICI Bank is on the growth path and they are focusing a lot on annuity and protection lines of business and of course some of the savings lines are also doing well in the bank. We are okay with that. I think we have found equilibrium and a new base at this time.

Nidhesh Jain: In the non-ICICI Bank channel I think the growth has been quite strong, probably more than 100% on a YoY basis. How do we see the trends going forward in that segment because we have added three decent sized banks last year but post that we have not added any large partner, so going forward specifically next year how do we see growth from that channel and what are the drivers for growth from non-ICICI banca channel?

N. S. Kannan: The second part I will answer first. Such big acquisitions now and then is not easy. We will have to keep scanning the market, keep at it, but these are all lumpy acquisitions in terms of distribution acquisition that can happen only far and few whenever there's an opportunity. I can only say that we will be alive to all the opportunities but it will be very difficult to sort of speculate when we will get the next big one. But in the meantime, we will be scanning the environment and getting lot of small ones. That is something which has been happening. I think Satyan mentioned in his opening remark that we have added

so many new smaller partnerships. That will continue. Of course, the 100% plus growth you talked about, there is a bit of base effect because some of those banks are not there in the base of the same period. To answer your question on trajectory going forward I would request Amit to talk about our strategy and what kind of growth trajectory we expect in this new bank partnerships going forward.

Amit Palta: I will just answer your question in two steps; one is of course bank partnerships beyond ICICI and other non-ICICI channels. So, I just want to bring to light the fact that investment in some of our existing channels has also yielded growth in excess of 40% for our channels like agency, our direct channels which includes our proprietary sales force, our online channels. Almost every channel which is existing in the operational now for more than a year now and for very long time we've actually seen growth right across all channels. Coming to newer banks, as you know that, we tied up with four new big partners and all those four partners are at various stages of building up their business volumes and we are quite happy with the way we have been choosing appropriate products which are most suitable for their customer segments and we have been able to build a fair share. Good part is that large part of the growth of some of these banks is being contributed by us as an insurer partner for them. So, to that extent it has been very gratifying but I always would like to believe that it is a WIP, it is a process which we have started and we will only see it building it from current levels. But I am drawing lot of confidence from the way our agency channel, our partnership distribution channel which includes our corporate agency and broker, some of our other 20 odd banca partners that we have beyond these four new partners, almost every channel has contributed and grown in excess of 40%. So, I think it is not just about new partners, it is also about what we are doing to our other existing channels. And in terms of newer partnerships on the corporate agency and broker side, we have added good 50-plus partners in first six months. As you know they typically take some time before they settle into becoming significant in scale. We do expect over a period of next six months they will also become significant in their contribution to our overall business.

Nidhesh Jain: The P&L hit in this quarter because of COVID mortality is around ₹ 3.6 billion?

Satyan Jambunathan: About ₹ 2.5 billion. We released a billion of the opening IBNR and then there were claims of ₹ 3.6 billion, so roughly ₹ 2.5 billion impact for the quarter.

Mayank Gulgulia: My question is a follow up on reinsurance. So, like what is the share of Munich Re within our reinsurance portfolio? Second question is like whether we have received increase in pricing from just one reinsurer or it is more than one reinsurer?

Satyan Jambunathan: We actually spread our reinsurance across various providers. So, there would be a different reinsurer for every product or product line. So, it's hard to say at an aggregate level what each of these share is. Nobody will have a dominant share in that sense. It is distributed, but typically we distribute by product.

Mayank Gulgulia: We have received a price increase from more than one reinsurer?

Satyan Jambunathan: For the term life which is what is the most spoken about. We have already increased prices on group term. We've already increased prices on credit life in the past. Retail term was one where price increase had not yet happened and we had said that we haven't received anything yet in the last quarter, that has now come. So, retail protection is now possibly on the cards for review. I had spoken about in my opening

remarks also that it's not only going to be price, it's going to be a combination of price and underwriting process eventually that is what will determine the outcome.

Sanketh Godha: My question is largely is if I look at Q1-FY2022 to H1-FY2022, margins have come off by almost 200 basis points. Are these because of the product mix which means that on sequential basis the contribution of protection has gone down, that has resulted in that margin compression or is it a function of little higher OPEX which we are incurring due to new business growth or new business acquisition cost is much higher than what we have anticipated?

Satyan Jambunathan: No cost related aspects, purely product mix. We also spoke about a little earlier in the conversation; we said protection at 14% for the quarter has been one of the lowest we have seen. Yet in spite of that VNB growth has been quite robust. Yet in spite of that margin has been upwards of 27%. So, quite honestly at this point of time the current trajectory of protection or any of the product mix elements is not worrying us too much on our VNB book.

N. S. Kannan: I would just once again appeal that our focus would continue to be on the growth of absolute VNB. Whatever comes as a margin is a derived number. That is the way we look at it. And we have also said at the beginning of the year that we need to get to a doubling of our VNB of FY2019 in four years would mean that it would require 28% growth this year and next year on an annualized basis and we said that that will be predominantly driven by the top line in the initial phase of this two-year period. That we were very clear. So, I think we are following that path. Yes, depending on the product mix of a particular quarter, the margin sort of get a little bit volatile. So, as long as we are tracking same or better than the margin of the whole of last year and in the top line VNB growth of 45% is above the 28% trajectory we are targeting, we are very happy. That is what I want to tell you that it's more like a margin, once again is more like a derived number than shooting for a particular number. If it expands, we will take it, but the primary objective will be to expand the absolute VNB.

Sanketh Godha: You have mentioned 28% of the contribution came from ICICI Bank. If I do a back calculation it seems that ICICI Bank just grew 6%-7% in the Q2-FY2022 and just within 11% for the first half. Despite the base being in favor of the channel, still growth seems to be very weak in that particular channel. So, their reluctance to sell other than annuity and retail protection being structurally weak for the industry as a whole, we believe the channel growth from other products will remain muted and therefore contribution to the growth will be challenged, only from the channel point of view?

Amit Palta: You are right, the two strategic priorities that ICICI had decided to focus on which was annuity and protection, delivered very different results for a variety of reasons. For protection, the reason is common to what we have seen as an industry. The supply side constraint has impacted ICICI as much as it has impacted other companies. On annuity, they have done very well; they have virtually done double of what they did in H1-FY2021. It is just that annuity as you know internally we weigh it by 10% in evaluating WRP. So, overall, it doesn't show that quantum or the APE is only 10% of annuity, so that number doesn't show. But they have virtually doubled their annuity business 100% plus growth rate over H1-FY2021 is what they have delivered on annuity. It was not about a low base last year, last year itself again was 100% growth for them. I believe that once protection comes back to normal levels and once the industry is able to address the supply

side constraints, I do believe ICICI continuing to have a very dominant play in both these spaces which is protection as well as annuity.

Sanketh Godha: This is on a macro question point of view because we believe that if RBI is successful on liquidity from the system, the yield curve will become flatter than what it is right now. So, just wanted to understand the overall impact on EV because of the change in the shape of the curve? And second thing is that given how it will impact business and operations point of view especially the non-par business, because FRAs will not look as attractive as they were looking in the past. So, do you think the non-par business kind of product will get impacted because of the change in the shape in the curve?

Satyan Jambunathan: We've discussed this in the past as well. If the non-par yields become unattractive compared to other instruments such as fixed deposits, then from the past we have seen that participating business becomes more popular. So, you may very well see a switch in mix between the two. Overall non-linked savings I wouldn't be worried. We do look at it as a pool which may shift from one to the other. In response to your first question on impact of shift in yield curve on EV, I think that's a very tough one to answer, because a non-parallel shift what part of the curve will shift, by how much is very hard to call, and effectively the impact on EV will come from my cash flows and which part of the yield curve there is a greater weight of cash flows. So, what we try to provide is a parallel shift sensitivity. Non-parallel shift is going to be very hard to estimate because the flattening may happen because the long end becomes shorter or flattening may happen because the short end becomes higher. I don't quite know what the answer is going to be. So, that's something that we'll have to wait and see how it plays out.

Sanketh Godha: Assuming at the short end, the yields will be flattening, then likely impact?

Satyan Jambunathan: Then I don't think it will impact the EV in any material fashion.

Nitin Agarwal: A couple of questions like firstly we have reported ₹ 3.6 billion of COVID claims in the quarter which is like 30% lower than the first quarter; however, like a few insurers and our interaction suggested for elevated claims, which can be potentially higher than the first quarter. So, based on your assessment, have we outperformed the industry in terms of claims or the decline that we have seen is going to be there for others as well?

Satyan Jambunathan: The only thing that I can say is that if I provided fully for all notifications in Q1-FY2022, Q2-FY2022 cannot be higher than Q1-FY2022. If I have not fully provided for notifications in Q1-FY2022, I can assure you Q2-FY2022 will be more than Q1-FY2022.

Nitin Agarwal: The second is on the EV growth like embedded value growth over the first half has been close to 4% and I understand the higher provisioning and the losses that we took in the first quarter has dragged this growth. So, if you can provide some colour as to how this is trending over the second half to form a better view like on the full year growth?

Satyan Jambunathan: I would suggest you look at the VIF growth because the networth growth would be depressed by all of this. The VIF growth is more indicative of the way the longer-term trajectory will be. If I were to look at VIF growth from over a 12-month period, the 12-month period VIF growth was more like 26%. So, for the half year my VIF growth was 8.7%, close to 9%. If I were to annualize that I think that's quite a healthy growth rate of VIF. As the networth issues go behind us from the COVID and COVID provision point of view, that should stabilize. Of course, there was also some positives from the market at

this point of time. Also, you have to keep in mind that in the first quarter we paid out a dividend of ₹ 2.87 billion. All of those will not be recurring into the second half of the year. As it is we have seen profit for the second quarter. No dividend outgo is expected in the next two quarters. And if profit comes through in the next two quarters, even the networth will see a reasonable growth. So, EV growth I am quite happy about. I tend to look at it more from the point of view of VIF growth because that is what is going to feed into my future profit pool.

Shyam Srinivasan: The first one is on M&A. We've seen one of your peers actually announced one. So, just want to understand how you're looking at M&A, what are the white spaces if at all that we are looking at, where we would like to look at any targets potential?

Satyan Jambunathan: M&A is always on the card. The key considerations for us are one, lasting distribution advantage, there are certain channels which give you a short-term distribution advantage that may not be very valuable, a long-term lasting distribution advantage such as a bank or a corporate distributor is very valuable. Second is a reasonable price that it may come with. So, these are two things that we are always looking for. If it comes by we are happy to look at it.

Shyam Srinivasan: If you've been looking those deals out there you think or is there a valuation hurdle if you can give us some color on how the M&A market at least is?

Satyan Jambunathan: Right now, I don't think there are any sustainable distribution opportunities that are in play.

N. S. Kannan: Which will survive the M&A.

Satyan Jambunathan: So, there are a few smaller ones which are there but we are not seeing any of those is giving a lasting distribution advantage.

Shyam Srinivasan: I think in your opening remarks you talked about the synergies between the annuity business and the pension fund management business. Can you just outline us and help us understand how this can kind of propel growth for the annuity front?

Amit Palta: We believe that our pension fund company right now is in the process, ever since they have become a POP, where they have started acquiring NPS accounts themselves, they have become a very significant player in getting more and more subscribers under NPS. What we believe is synergy as an opportunity for us is when these NPS subscribers will start reaching the maturity where they will start looking at annuity as a proposition for them. That is where close working with a life insurance company. Both the teams can work together to convert and give composite solutions to the customers who will probably do accumulation through NPS platform and will then culminate it into an annuity product from a life company. As you know that annuity products are exclusively sold through life insurance companies only, that is where the synergy lies. We also see the opportunity that ICICI Bank which themselves also is in POP, they can contribute to more and more number of NPS subscribers joining the fray. And we do believe that with the current under penetration with the pension assets being only 2%-3% of the overall GDP, we do believe that this accumulation over a period of time will convert into a huge opportunity for the industry on what will open up as annuity opportunity offered by all life insurance companies.

Dhaval: If you can throw some colour on, while you said the annuity business has grown in the bank environment, how does it shape up with the other environment like partnership distribution, ICICI, other banks agencies, our group business, superannuation piece, so while we have doubled the business, if you can give some color in terms of different flavors while ICICI Bank has grown 100%, how the other form of business kicks in into groups, retail and into a different channel?

Amit Palta: On the retail side our investment in annuity is actually quite well-rounded and is focused right across channels. And understand the start point of our focus on annuity was the time when we changed our target segment from only a retired customer to a customer who's nearing retirement. That is what opened a new customer segment for us which is typically a customer in age band of around 48 to 58 years. That is when the customer starts thinking of retirement and that is where we launched our new product offering last financial year which offered a deferred proposition to the customer where he could start planning for annuity well in advance and that opened opportunity. And this is one traction that we are seeing building right across channels. So, there is no bias. ICICI of course is growing at double the rate but then there are other channels as well who are matching up with the growth rate that ICICI Bank is delivering. Our agency business for instance is also for last couple of quarters doubling their business on annuity. Just to give you some colour, today of the overall annuity that we sell, a good one-third of our annuity actually comes from this customer segment, which is 48-50 years age band which earlier was not considering annuity as a proposition.

Dhaval: You answered my next question. My next question was on the lines of what is the percentage of deferred annuities that you offer. Fair enough. Thanks a lot that gives me a perspective.

Rishi Jhunjhunwala: On the protection side between retail, GTI and credit, since early part last year, are we done with one round of pricing hikes from the reinsurers or has any section seen dual hikes also?

Satyan Jambunathan: Retail protection saw price hike at least for us last July. Group protection saw a hike from us during this financial year in May, June and July. We haven't seen a second hike on any category so far in the last 18-months.

Rishi Jhunjhunwala: But you will be doing one on the retail side I guess now?

Satyan Jambunathan: So, like I said before, the reinsurer has given us notice of change in rates. Exactly how that will translate, we have to figure out. It may very well translate into a rate increase towards the later part of this financial year.

Rishi Jhunjhunwala: When you mentioned group, you're referring to both GTI and credit protect?

Satyan Jambunathan: That's correct

Rishi Jhunjhunwala: Can you give some sense in terms of what would be the margin differential between say your GTI business versus credit protect or would it be roughly similar?

Satyan Jambunathan: We have not given that out publicly.

Abhishek Saraf: I just wanted to understand a bit more on the durability of price hike for reinsurance. Of course, the higher claims could be driving that but as we have seen that now the claims have started to come off. So, in that light how could one see on the durability of these price hikes? And pardon me if you have touched upon this, on the sensitivity of let's say there were a certain percentage hike in reinsurance, what could that mean in the final price hike for a product? And if you can just refresh our memories in terms of how it played out last year?

Satyan Jambunathan: It's going to be hard to attribute how much of the price increase is coming from COVID or non-COVID, it's a composite increase and I don't think anybody is going to be sharing with us what the impact broken up by each will be but my general sense is that you wouldn't seek to recover a one or a two-year COVID claim into long-term price. So, I would expect the pricing to substantially reflect a view on underlying mortality and not be oriented more towards COVID. In answer to your second question on what will be the impact of reinsurance price on customer price, too premature to even get into that conversation. It is still very early stage in the discussion. We have to work out what will be our combination of price, sourcing and underwriting before we determine what will be the price increase.

Abhishek Saraf: On the last year part if you could help us refresh what was the reinsurance price hike that we got and how much was finally passed on in terms of price hike? And second question apart from this I had was on persistency. So, persistency has been increasing since the first quarter last year but this quarter I noticed that 13th month or 61st month persistency have declined. If you can just share some light on why that has happened?

Satyan Jambunathan: Last year, our price increases were anywhere between 10% to 25% depending on sum assured, term and all of that. And reinsurance price hikes again were much higher than that; more like 30% to 40%. So, we'll have to see how it translates now. Persistency I am not sure, I don't think persistency for us is declined compared to what we had earlier. In fact, it's actually improved across most buckets. Like Kannan mentioned early on, I don't know, this time we have changed the persistency definitions and we are giving the additional data as required by the new definitions of IRDAI. Basically, they are telling us now separate out your persistency to regular pay and fully paid and fully paid include single premium. So, to that extent you will see the more relevant persistency measure come through now than you would see before, across companies. If you see slide 22, you will see the persistency numbers broken up between regular and limited pay during the premium payment term and fully paid in single premium which is beyond the premium payment term.

N.S. Kannan: Thank you all for joining us on this call. I do hope that bulk of the questions has been answered; however, if you have any residual questions, my team and I are available to clarify to you. Thank you. Have a good evening.

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