ICICI Prudential Life Insurance Company

Earnings Conference call – Quarter ended September 30, 2017 (Q2-FY2018)

October 24, 2017

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

Sandeep Batra: Good evening and welcome to the results call of ICICI Prudential Life Insurance Co for H1-FY2018. I have Satyan Jambunathan, CFO and Vikas Gupta head of Investor relations with me and we will walk you through the developments during the quarter as well as the presentation on the performance for H1-FY2018.

We have put up the results presentation on our website. You could access it as we walk through the performance presentation.

Company Strategy

We continue to approach the overall market opportunity as two distinct segments-savings and protection. Our focus on the savings opportunity is through customer centric product propositions, superior customer service, fund performance and claims management.

Our focus on protection is through a multi-pronged product and distribution approach. We have a range of products-individual term, mortgage linked and group term products to cater to different markets segments. We use traditional distribution channels like agency and banks and also emerging channels like direct, online and web aggregators to reach out to different customer segments.

Company performance

New business

It is in this context that I would like to present our H1-FY2018 performance. Our savings business APE grew by 37.0% year on year and during the same period our protection APE grew by 31.6% leading to the overall APE growth of 36.8%. Our value of new business was ₹ 4.17 bn in H1-FY2018, a growth of 70.9% over H1-2017. New business margin for the period was 11.7%. This was due to an increase in protection mix over FY2017 and an improvement in the margin of savings products. I will go into details of each of these elements through the presentation.

For H1-FY2018 our retail weighted received premium or RWRP grew by 38.8% year on year compared to industry growth of 25.2% and private industry growth of 36.5%. Consequently, our market share stood at 13.7% in H1-FY2018. We continue to maintain our leadership position amongst the private companies.

Our total premium for H1-FY2018 was ₹ 114.84 billion compared to ₹ 90.29 bn for H1-FY2017. In addition to strong new business growth, our retail renewal premium also grew by 23.4% from ₹ 56.99 bn for H1-FY2017 to ₹ 70.32 bn for H1-FY2018.

Our protection mix increased from 3.9% in FY2017 to 4.2% for H1-FY2018. Growth in protection business is also reflected in the 30.6% growth in new business sum assured from ₹ 1.49 trillion in H1-FY2017 to ₹ 1.94 trillion in H1-FY2018.

We have a balanced channel mix. Our growth is well supported by strong performance across channels. During this period, Agency grew at 59%, Bancassurance grew at 25% and direct business grew at 57%.

Quality parameters

Our focus on persistency continues to be reflected in the improvement across cohorts. Our 13th month persistency of 87.0% is amongst the best in the industry. Our current focus is on translating the 13th month improvements of the last few years into subsequent periods as well.

Overall our cost to TWRP ratio for H1-FY2018 is 14.1%.

We are amongst the largest fund managers in India with an AUM of 1.31 trillion. Linked funds contribute ~71% of our AUM with equity investments comprising of 58% of linked AUM.

Profitability

Our EV was ₹ 172.10 bn as at September 30, 2017

Our Profit After tax for H1-FY2018 was ₹ 8.27 bn. Solvency ratio continues to be strong at 275.7%. The Board has approved an Interim dividend of ₹ 2.30 per share and given strong solvency position, a special dividend of ₹ 1.10 per share which translates into total dividend payout ratio of 59%. Total dividend payout would be of ₹ 4.88 billion excluding DDT.

Summary

To summarize we believe that both the savings and protection opportunities continue to be strong. Our customer centric approach across the value chain from products to claims management and strong focus on quality metrics position us well to capitalize on this opportunity. Our multi-channel architecture is backed by strong technology platform. We have robust and sustainable business model with strong capital position. Thank you and we are now happy to take any questions that you may have.

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

Dhiraj Dave: Why is there a decline in the 61st month persistency ratio?

Sandeep Batra: If you notice, we continue to focus on improving persistency across all the cohorts and there is a marginal drop in 61st month persistency but it's not very significant.

Dhiraj Dave: There was a phenomenal improvement in persistency, from 14.5% in FY2015, then almost 30% jump to 46% in FY2016 and 56.2% in FY2017, so was that a one-time improvement because of initiatives taken that time?

Satyan Jambunathan: The improvement from ~14% was because of change in the product regulations in FY2011, when the lock-in got changed from three years to five years, so that was one time change that you would have observed. Post which there was no significant change. The later month, i.e. 61st month persistency also is a function of a larger proportion of single premium business that we did in FY2011. So structurally there continues to be an improvement. I don't think the 61st month persistency is worrisome at this stage. More importantly we're now seeking to translate the improvement in the 13th month into later period and it will actually take that many number of years before that starts flowing into the 61st month.

Avinash Singh: For the first half, growth of embedded value is about 6%, what is the breakup of EV movement between economic, investment and operating variance and what is the operating return on embedded value?

Satyan Jambunathan: We have disclosed the full movement of embedded value only on an annual basis. Given the seasonal nature of business, half year numbers are difficult to interpret, so what we have is only the embedded value as on September 30. Most importantly the value of in-force component of the embedded value has been growing consistently over the last year and a half and which is reflection of growth in value of new business and the positive variances that we have been able to achieve through the operating performance during this period.

Avinash Singh: Also can you quantify the contribution of profits from surrenders in your H1-FY2018 and H1-FY2017?

Satyan Jambunathan: Surrender contribution in unit linked business is classified as foreclosure income which is negligible now. On the traditional business there is really no measure of surrender penalties, which is coming into the income statement.

Nidhesh Jain: Margin improvement is quite strong in this quarter. For the quarter I think run rate has increased to 12.4% and the share of participating has gone up while growth in pure protection is a bit muted. So going forward what is the sustainable product mix strategy that the company is going with and whether the current margin that we have posted in this quarter is sustainable?

Sandeep Batra: The margin for this quarter is 12.6%. The margin expansion this quarter has essentially happened due to new unit-linked products which have a marginally better margin than what we had earlier and even the participating business mix is slightly more than what it

was earlier. It's a combination of both these factors. We do expect to sustain this level of margin.

Satyan Jambunathan: More importantly, the margin is going to be driven by the protection business growth, so with over 30% growth for the half year, that still continues to be strong. We continue to work on the protection opportunities across all of the segments.

Nidhesh Jain: What is the reason for protection growth slowing down in H1-FY2018 versus growth rate of 70-80%?

Satyan Jambunathan: The 80% growth for 2 consecutive years was on a very low base and therefore may not continue. 30% is also a strong growth rate. In the first half of this year, we had a very strong savings growth rate and there are periods of time where between the two, one outperforms the other, but fundamentally nothing has changed with respect to the protection opportunity and our focus is more about growing the overall absolute value of new business, which for the first half year grew by 71% growth over the same period last year and to that extent we are quite comfortable with the outcome for the half year.

Nidhesh Jain: On a quarterly basis, the share of agency has reduced from last quarter and the share of participating has gone up, so are we are trying to have a slightly higher participating mix?

Sandeep Batra: We have said we do not drive either a particular product mix or a channel mix. We let the customer choose both the channel and the product and what you see is an outcome of customer choice or how the respective channels have performed. There have been certain channels, which have done better during this period and there will be times when others will do better. We are not really driving it. On the product side we have maintained, we would like to grow the protection business at a much higher rate over a longer period, but during the short-term whenever there are opportunities even on the savings side we would like to capitalize on it. Within the savings business while we do believe unit linked offers a much better customer proposition, we would let the customer choose the product mix.

Nidhesh Jain: Can you share the amount of VIF for H1-FY2017 just to compare the VIF growth on a YoY basis?

Satyan Jambunathan: For H1-FY2017, we had not made the VIF breakup public. We have given the total EV number at the yearend only and now we have given the breakup for half year. So if you look at the overall EV over H1 of last year there is growth of about 16% and pre dividend it's 20% and you can actually back calculate the net worth and work it out. So the growth has largely come from the growth in VIF over this period.

Thomas Wang: If I go back on the persistency, and look at quarterly for each Q1, Q2 your 61st month persistency didn't move as much, but from your H1-FY2017, 61st month persistency declined quite a bit, what's the reason behind that?

Satyan Jambunathan: If I look at the persistency of Q1 versus Q2 effectively we are talking about slightly different cohorts. I think the strictly comparable number will be when we get to the end of the year, then it should be much more comparable with a full year 2017 numbers. Through the years we are dealing with different cohorts with different maturity across them. Hence the interim persistency numbers is more of a directional indicator. The strictly comparable numbers will come through only when we get to the end of the year.

Thomas Wang: I was looking at your six month period and your 61st month persistency for last year first half was 68%, this year was 55.6% is there any change in calculation?

Satyan Jambunathan: As I described a little earlier, immediately after the regulations changed in fiscal 2011 we had a higher proportion of single premium in our new business, which was sitting in the 61st month cohort in the same period last year. The persistency calculation is done as per a formula, prescribed by the regulator, in which single premium counts as 100% persistency, so it is not strictly comparable, to compare the 55.6% that you see now versus what you had for H1 of last year because of the underlying mix of single premium.

Thomas Wang: It looks like you have moved your supporting expenses to commission now and then if I add up commission ratio and the operating expense ratio, it has come up quite a bit. Is this current level of expense is what we should expect going forward?

Satyan Jambunathan: What we have seen in the first half, is that the change in the commission in the products got effective from June 1, that's when we got approval for the revised products from the regulator. So you have a slight distortion in the first half of the year. As this goes through the rest of the year, our expectation is across commission and operating expenses together, on the savings business it should be fairly similar to what we had last year.

Thomas Wang: If you add up commission and operating expense and divide that by premium last year first half was still 18% and this year it is 13%, so that's quite a large decline, do you see that going forward?

Satyan Jambunathan: It will moderate out as the year progresses and won't be this sharp. The regulations changed, which prevented certain advertising activities from being done from the start of the year, so we had a lesser expense for the first two months; however, the new commission rates kicked in only from June. As we go through the rest of the 10 months of the year we will find this almost normalized. This would be a small change, but we don't expect a meaningful difference versus last year.

Thomas Wang: So it won't affect your long-term expense levels?

Satyan Jambunathan: To the extent we continue to push operating efficiency that improvement affect the number, but because of this change we should not expect to see any meaningful change in the expense ratio.

Sandeep Batra: Thank you so much, pleasure interacting with all of you. If you have any follow-up questions, you are free to get in touch with us.