ICICI Prudential Life Insurance Company

Earnings Conference call – Quarter ended December 31, 2017 (Q3-FY2018)

January 19, 2018

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

Sandeep Batra: Good afternoon and welcome to the results call of ICICI Prudential Life Insurance Co for 9M-FY2018. I have Satyan Jambunathan, CFO and Vikas Gupta head of Investor relations. At the outset, I am happy to share with you that our Value of New Business for 9M-FY2018 was ₹ 7.67 billion compared to ₹ 4.21 billion in 9M-FY2017, a growth of 82.2%.

We will walk you through the developments during the quarter as well as the presentation on the performance for 9M-FY2018.

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

Key developments

One of the key developments in the quarter was a report submitted by the product committee which was constituted by IRDAI to review product regulations. Some of key recommendations include creating a level playing field for health products vis-à-vis general insurance companies, more conducive environment for growth of pension business and flexibility in investment of policy holder funds. We believe these enablers, if implemented, will create new opportunities for us. Another key recommendation is with regards to improving the surrender value in traditional savings products. Unit linked products had undergone a number of changes through product regulations in 2010 and 2013 and currently offer the best customer proposition amongst insurance savings products. There has been discussion to improve customer proposition in traditional savings products also. If these recommendation were to be implemented, it could impact traditional savings products which constitutes less than 12% of our new business.

Company Strategy

Our objective continues to be to grow the value of new business (VNB) using customer centric product propositions by tapping into both long term savings and protection opportunities. We are a retail focused company with a multi-channel distribution architecture backed by a robust technology platform. We use traditional distribution channels like agency and banks as well as emerging channels like direct, online and web aggregators to reach out to different customer segments. We are also focusing on creating technology driven new partnerships to expand our distribution. We have been continuously improving business quality to deliver enhanced customer and shareholder value.

Customer centric products

As mentioned earlier, in the savings segment, ULIPs offer a customer centric proposition. It offers transparency, lower cost and minimal persistency risk to the customer. From the company's perspective ULIPs can compete effectively in wider financial savings space in both offline and online environments. In protection products, benefits are paid only on mortality/morbidity events

and there is no maturity or surrender value. In this segment, the interests of policyholders are well protected. For us, ULIP+Protection contributes 87% of the total APE.

Focus on retail

We are a retail focused company. The retail segment contributes more than 98% of new business APE and retail AUM constitutes more than 88% of the company's AUM. Our retail APE growth of 25.4% from ₹ 43.81 bn in 9M-FY2017 to ₹ 54.94 bn for 9MFY2018 is driven by strong performance across channels. We continue to have a balanced channel mix.

For 9M-FY2018 our retail weighted received premium, RWRP grew by 26.3% year on year compared to the industry growth of 24.9% and the private industry growth of 32.8%. Consequently, our market share stood at 13.1% in 9M-FY2018.

Business Quality

We believe persistency is the most important measure of business quality. Our persistency continues to improve across most cohorts. Our 13th month persistency stands at 86.7% for 8M-FY2018, which we believe would be the best in the industry. Our persistency is similar across channels and product categories. Our current focus is on translating the 13th month persistency improvements of the last few years into subsequent periods as well.

The focus on persistency is reflected in the growth of the retail renewal premium.

We have one of the lowest cost ratio in the industry. Overall, our cost to TWRP ratio for 9M-FY2018 is 14.0%.

Superior fund performance is important to improve the value proposition of saving products. Our funds continue to deliver competitive long term performance.

Grow Value of New business

Our savings business APE grew by 24.9% year on year and during the same period our protection APE grew by 32.2%, leading to an overall APE growth of 25.1%. Our value of new business was ₹ 7.67 bn in 9M-FY2018, a growth of 82.2% over 9M-2017. Growth in Value of new business is driven by growth in both Protection and savings businesses, margin improvement of saving products and Improvement in operational efficiency.

- As we had explained in the Q2FY2018 result call, new ULIPs launched in June 2017 have better profitability than the old ULIPs. Also we have been focusing on selling products with longer premium payment term
- Intra year VNB calculated based on management forecast of cost for full year. Given that we are well into the year, we have refined our cost projections for the year which is reflected in the margin. Since this has a catch up impact, it won't be appropriate to consider difference between nine month VNB and H1 VNB as VNB for Q3FY2018. While we believe that our current 9M margin of 13.7% is sustainable, our business objective continues to be growing the absolute VNB

Summary

Our Profit After tax for 9M-FY2018 was ₹ 12.79 bn. Solvency ratio continues to be strong at 252%. We are amongst the largest fund managers in India with an AUM of ₹ 1.38 trillion. Linked funds contribute ~71% of our AUM with equity investments comprising of 61% of linked AUM.

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 business quality position us well to capitalise on this

opportunity. Our multi-channel architecture is backed by strong technology platform. We have a robust and sustainable business model with strong capital position. Our business objective continues to be growing the absolute VNB. Thank you and we are now happy to take any questions that you may have.

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

Dhaval Gada: Could you just break down how does the overall cost change from an acquisition and operating maintenance cost perspective?

Satyan Jambunathan: We have not put the specific cost assumptions in the public domain, but with the saving business robust growth at 25% and cost in aggregate commission plus opex together has grown at a slower pace which is resulting in the cost efficiencies in the savings side of the business.

Dhaval Gada: Would it be fair to assume that what you reported at the time of the IPO, which was 77:23. Is that moving closer to in favour of acquisition cost more and are we seeing more low percentage of maintenance cost?

Satyan Jambunathan: The ratio will be fairly stable for some time as long as growth is meaningful. It does not tend to change very rapidly, so it should be in a similar zone.

Dhaval Gada: If I look at the cost schedule, administrative support expenses has now gone into commission, is that the reason why we are seeing some benefits trickling down?

Satyan Jambunathan: Yes, broadly in the operating expenses, there are two line items where you will see sharp drops, one is administration support and the other is advertising and related. These are two activities that we used to have as additional arrangements for customer awareness or customer outreach programs with corporate distributors. Given that these activities themselves can no longer be carried out as per the new regulation, these expenses have reduced,. During the same period, average commission rates have gone up.

Dhaval Gada: Is there a change on the trail commission that you used to pay earlier versus now or in the new product design?

Satyan Jambunathan: It is similar.

Vishal Rampuria: How much of this improvement in the margins for the nine months would you attribute to only change in cost? I know that the last year we had a very strong base for December but can you throw some more colour on why the growth entire premium collection for the month of December growth was flat or slightly negative?

Sandeep Batra: The increase in margins is on account of three factors. There is increase in margin on savings products. The savings product as I mentioned launched in June have a slightly high margin than the old savings products. There is also an increase in the average premium paying term. There is a improvement in operational efficiency and compared to the numbers of last year the protection mix is now at 4.1% versus 3.9%. There is also a marginal increase in the Par business, all this put together has resulted increase in margins from 10.1% to 13.7%.

December was a period when the affect of demonetisation was factored in, so we had expected growth to be muted given the base effect, but you need to see growth over a longer period of cycle. If you see a nine-month period we have grown by about 25% and we maintained the earlier statements that we have been making that this industry is expected to grow largely in line with nominal GDP and we would grow a little ahead of that. Within this space we have also said protection would grow at a little faster . In this quarter, you will note that there has been an uptick on the protection side.

Vishal Rampuria: Can you give some more colours about how much higher margin your new products are able to fetch compared to older products?

Satyan Jambunathan: We have not disclosed the margins at that level of granularity, but if you see Q2 and Q3 it is largely reflecting the new products that we have been selling, Q1 had the older products.

Vishal Rampuria: Can you highlight what kind of tie-ups we have done to build our group credit business?

Satyan Jambunathan: We have not put out the names of the arrangements that we have. That clearly been a focus area for us we have entered into many more tie-ups in this year than we had in the past. We should expect to see over the next few quarters some of that come through into the business growth.

Vishal Rampuria: Is it easy to do a same tie-up with the one lender there is already one tie-up which was done by them?

Satyan Jambunathan: It is effectively open architecture. The lender can tie-up with as many people as he wants with respect to providing his clients the insurance cover, but it does take time before any changes happen.

Vishal Rampuria: But in terms of generating the business?

Satyan Jambunathan: Any partnership will always take time to scale up.

Vishal Rampuria: In this quarter the APE growth is below around 10% or so, which is quite lower compared to other large player of equal size can you throw some more light on how do we plan to catch up with other players of where we are lacking?

Satyan Jambunathan: I think one is to look at it over a multiyear time horizon. Last year the growth that we had in the same period was probably one of the strongest. If we normalize it over a cycle you will find that we have had a robust growth.

Nidhesh Jain: Last year we have seen a steady jump in margins from Q3 to for full year because we revised our estimates on the persistency, so this year also for the full year is it reasonable to expect that the margins will be about 14.5% for the full year?

Satyan Jambunathan: Nine-month margin is 13.7%, which we believe is sustainable. As you rightly pointed out this does not yet allow for any changes in assumption, it is only reflecting our estimate of costs. We will review that in March to see whether there is a reason to make a change to the other assumptions. If there is then that would reflect in the margins.

Nidhesh Jain: And these margins include the change in interest rates that we have seen recently?

Satyan Jambunathan: Yes. These margins are based on the yield curve as on December 31, 2017, so the economic environment has fully factored in.

Nidhesh Jain: In the direct channel we have seen very steady growth, the share of direct channel has become almost 18%, what actually are we doing there, what is the size of the employee force that is sourcing business and what implication it has on our margins and cost efficiencies?

Satyan Jambunathan: We have said this before, we see the direct channel as a very important tool in our cross sell and upsell initiatives on our existing customer base. This is reflected through the growth that you have also seen over the last couple of years and you are seeing in this year as well. We have not specified how many people there are in each of these channels, but there are a meaningful number of people that are there in the channel to execute these campaigns. From a profitability perspective, the channel is more fixed cost because it is our own employeesand we do not incur commission. So from an overall economics it is very similar to the other channels that we have.

Nidhesh Jain: Lastly what is the reason for this sharp revision in our cost estimate for FY2018 versus what we are expecting at the end of H1, why the estimates have reduced substantially at the end of nine months, is it due to changing distribution mix?

Satyan Jambunathan: It is not a substantial change. What you see as a Q3 number is because you have a catch-up effect coming through, otherwise the Q2 margin was about 12.6% and the 9M margin is about 13.7%. Typically when you are just halfway through the year with a little bit of seasonality still left to go it is not very easy to forecast the cost for the end of the year. Now nine months into the year we have a better handle on where we expect to end the year with. The savings business continues to become more efficient, the protection business will continue to be at a higher cost, so even when we go through to the end of the year we could find the protection business having a higher cost ratio, but the savings business efficiency is what is coming through for us. Given that the growth at about 25% has been fairly strong in that segment that has contributed to the overall cost efficiency.

Nidhesh Jain: Because growth has actually slowed down in Q3 versus what we were doing in H1?

Sandeep Batra: That was expected Nidhesh, if you see we have said that once the base effect of demonetisation will come into play, there would be a moderation.

Satyan Jambunathan: And quite clearly the cost ratios when I move through to the end of year will be a function of the overall growth for the whole period, not just for a quarter within that.

Adarsh Parasrampuria: What are the qualitative changes made in filing of new products that five pays become longer, your surrender beyond five years goes down?

Satyan Jambunathan: We have not made any changes to our surrender assumptions. What you spoke about, about lengthening the product term is less of a product feature but a distribution behavior. Within the organization, we have been trying to focus on moving the needle on that. We have started making some progress, not very meaningful yet, but those are what I would call green shoots at this stage. Structurally though what changed in those products was two-fold and the older product had a higher fixed cost given the nature of arrangements with corporate

distributors, that has got replaced in the new regime with a variable cost and that has its own reflection on the profitability. The second element is that the charge structure themselves in the products having changed a little, which have resulted in the overall profitability of that product being better than the older products.

Adarsh Parasrampuria: So this is more like opex, your overheads move to commission and is that some part of the change that has happened in the new products?

Satyan Jambunathan: That is correct.

Sandeep Batra: Overall cost ratio is what is important to track rather than how the commission and its expenses respectively have been moving.

Adarsh Parasrampuria: Like earlier you used to sell majority five pay products, right, so what is the new mix like seven year, nine year, 10 year pay products, what is the change now?

Satyan Jambunathan: It has not been as dramatic as that yet Adarsh. We would like it to be that dramatic, but right now it is a small shift that we have seen, but all that we are doing is placing on the table that there is indeed an initiative one in the organization to change behaviour, which will take its own time.

Adarsh Parasrampuria: Protection has grown faster than savings APE in nine months, is it still not enough to kind of move the mix and needle as much right 25 overall APE growth in 32% is protection APE in nine months, what is happening is the system exhausting a little bit of credit protect, the penetration improvement you got what is the underlying mix within protection?

Satyan Jambunathan: The mix is quite similar to what we had before. There is still a very large focus on retail within the protection portfolio. The good thing for us is all the segments underlying protection have been growing in a fairly similar fashion, so it is not that has changed very much. Again if we compare the 30% plus growth to 80% in the last two years it may seem like a big change, but again the last two years the base was small. The most important thing from our perspective is consistent with our objective to grow the absolute value of new business. It is not as if the absolute value of new business growth needs to come only from one segment or the other. We have been doing well on the savings segment as well and that also continues to add to it. There is nothing that we are seeing structurally, which creates any concern on the growth prospects of protection over a medium term.

Adarsh Parasrampuria: First few slides talk about the surrender charge comparison, which clearly looks unfair from a customer perspective, this thing that we have been discussed in the past right, but you had a committee recommendation report, so how soon in your view could expect these are, this could be, is being discussed for long now, so we just wanted to understand do you think it will now more closer to happening now then what we were earlier or?

Sandeep Batra: You are right this has been in the works for some time. As I mentioned they had reformed the unit linked products in 2010 and 2013 then about two years back, Sumit Bose Committee Report talked of reforming the traditional savings products. Now IRDAI took the initiative and setup a committee to identify the issues issues. I think they will take a call and ensure fairness from a customer perspective at an appropriate period of time.

HR Gala: Just wanted to understand your slide #4 the recommendations by IRDAI, the existing surrender charge for savings product, etc., what has been mentioned, do you expect any major changes to take place in that?

Sandeep Batra: At this point of time the product committee, has identified the issues. The solution and the pace of its implementationis still to be worked out. What is good is that the issues around the product are there in a public domain and I am sure everybody in the industry and the regulators will work to find an optimum solution at an appropriate period of time.

HR Gala: The other things you mentioned about the level playing field for health products, etc., how is that going to pan out?

Sandeep Batra: From health perspective we have been saying that both from a commission and reinsurance it should be very similar for Life and Non-life companies. What the report y talks about is the regulation should not be different for a health product whether it is sold by our life or a general insurance company. . If this opens up, given the size of the health insurance market it would throw up appropriate opportunities for us.

HR Gala: Any other positive thing, which you look at?

Sandeep Batra: Thisis e still a committee report. IRDAI is yet to take a final view on this.

HR Gala: Why the change in actuarial liability that has substantially increased in nine months YOY as well as in Q3?

Satyan Jambunathan: What goes through the change in liability is primarily premium income plus investment income net of claims so that is exactly what is reflected. The change in liability is completely consistent with the change in the premium income as well as investment income.

HR Gala: So because of the higher claim amount the liability has changed?

Satyan Jambunathan: It has changed because of the higher premium income plus investment income.

HR Gala: Because it has increased that is why you have provided high amount?

Satyan Jambunathan: Yes.

HR Gala: How do you see going ahead you said that about 20% plus type of business growth is possible over a period of time, this year or next few years?

Satyan Jambunathan: It is hard to put a number to it. As mentioned, our view of growth potential for the industry is that the industry should grow broadly in line with nominal GDP. Along with that if you look at the environment that what we are in currently with a greater thrust towards financialization of savings that should effectively be some positive from a growth opportunity perspective. The big growth opportunity even beyond this continues to come from protection, which is still very underpenetrated. So without putting a number to the growth prospect going forward we have a fundamental view that the growth prospects are quite strong.

HR Gala: How do you read the competitive action In terms of likely pressure on the price at which you would like to put a new product or things like that?

Satyan Jambunathan: If I were to look at the competitive landscape most of the distribution is tied to one company, so the competition tends to be between insurance savings product and other financial savings products itself and not necessarily about one insurance company's product versus another insurance company's product. Secondly, from a penetration perspective clearly the opportunity is so much that I do not think price has become a significant driver of competition in this market place. The place where it can be quite important is the online space especially protection where customers might want to make a decision based on pricing, but one also needs to keep in mind that a term insurance contract for example is a very long term contract 30 to 40 years for customers and therefore a customer needs to have comfort that his claim, if it arises will be settled by the company. The strength of the brand also we believe is a very important determinant of the buying decision of customers.

Thomas Wang: On the cost that you have updated your projection for the full year cost, how much of that impact our margins or NBV for the nine months and secondly can you just talk a little bit more about your solvency or capital consideration looks like its consumptions about 30% to 40% fund this year, what is your thinking around that? Thanks.

Sandeep Batra: On solvency we had about 250%. This was about 280% at the beginning of the year but even at this level I do not see the need for raising capital in the near term. This is what we have been stating for a fair period of time and there are enough levers, which are available for us including change in dividend payouts, using tier 2 and in case the IFRS comes into play it will give us an opportunity to release some capital. Coming to the cost part of it, we have said that the VNB expansion is a function of three items. Cost is one of them, then we talked about the new products that we launched in June this year and the fact that we are having products with longer term.

Thomas Wang: Would you be able to give sort of quantify the cost a bit on the 13.7 margin?

Sandeep Batra: We do not give specific component, but what we believe that 13.7% is a sustainable number.

Thomas Wang: Last year when did you perform this cost revision for the full year, which is the fourth quarter or full year?

Sandeep Batra: For VNB, it is always calculated on actual cost and that is what we disclosed at the end of the year. It is intra year that we make a forecast of the cost. So this is just what is happening during the course of the year. When we come out with the results of March we will have actual cost for the year.

Thomas Wang: I just think last year third quarter did you make a similar or did you do this every quarter, I think you said you did not do this in the second quarter this year, so did you do a similar revision of the full year cost at third quarter last year?

Satyan Jambunathan: We look at the projected cost every quarter end and as we get closer to the end of the year when we have more comfort on where we see the cost settling down it is when we may have typically make the changes.

Prakash Kapadia: Could you give us some perspective on ULIPs, what are customers currently doing, are they opting for more debt products especially new ones coming in the system and some trends in terms of contribution from non-top 10 cities for us and potential to grow specifically beyond the top 10 cities in terms of ULIP?

Satyan Jambunathan: From a unit linked asset allocation perspective, the equity allocation has remained fairly stable for us between 55% and 60% of new money that the customer has chosen to put into equity, balance goes into fixed income that remains stable. The basic approach to trying to sell the unit linked product is not about timing the market or taking the market view because given that it is a five-year locking it is very hard for a customer to time the market for unit linked product. It tends to be more of a lifecycle based asset allocation and therefore we have not seen a change very rapidly even in spite of the way markets have moved as it tends to be fairly stable. The second part of your question with respect to where the growth is coming from, growth is coming for us across all geographies. While the top 10 cities would be a meaningful part of our business, our own business is much more widespread than that, so it would take may be 50, 60 or something like that cities to give us the Pareto effect as far as the state of business is concerned, so we tend to be much more dispersed from a geography perspective as far as business mix is concerned.

Parag Jariwala: One, the changes proposed to the pension product, I mean the committee recommendations, what they say is basically if you look at NPS currently I mean in all the forms it is a much, much better product be it be the management charges, tax break and everything, so even if the parity, which is not there in terms of how much you can surrender and how much has to convert into an annuity, which is a difference between NPS in our pension product right now. Even if that is bridge do you see a substantial pickup in this product because at one point in time this product used to be a meaningful part of insurance industry?

Satyan Jambunathan: There are couple of factors that are quite important for the success of this product. One is taxation of annuities. The current regime is that the entire income is taxable. The income actually comprises a part of principal and a part of interest that is an important element, which needs to get addressed. The second element is liquidity in the product. By structure now pension products in the insurance domain are required to be compulsorily annuitized with a one third that can be cash down and like you rightly pointed out across the various pension providers if there is more of parity from a liquidity perspective then it becomes useful. The NPS structure that you described is more of a passive or an index-based approach. In the life pensions product there is an opportunity to have other element as well there can be asset allocation choice, which is wider, there can also be the element of life cover should a person choose to have it and therefore it is slightly different proposition from what one would see in the NPS product offering. Of course there is a place for everyone of these and each of them has an opportunity. Some of these areas it goes back to a similar point that we address earlier on parity on health. The question fundamentally has to be that if a pension product is offered by any provider do they have a similar regulatory environment, similarly if a health product is offered by any provider do they have a similar regulatory environment and that is the primary point that the report is taking to highlight.

Parag Jariwala: Where do you see this product having their margins is it somewhere closer to a Par product or?

Satyan Jambunathan: Structurally any savings product margin will depend upon persistency and tenure of the product.

Parag Jariwala: Can you just briefly highlight your reinsurance policy overall?

Satyan Jambunathan: Overall our approach to reinsurance is that where we have more stable risk we retain more so that as we improve experience we get the upside for ourselves. For new

risk whether portfolios are relatively smaller till they reach a meaningful scale we prefer reinsuring more and to let us say in our savings products our retention will be substantially higher than the new term insurance products.

Nishchint Chawathe: You mentioned that 13.7% margin is sustainable, so can we kind of infer that your margins for the third quarter would have been at similar levels, but for the adjustments that you have done on the expense side?

Satyan Jambunathan: That is correct.

Nishchint Chawathe: The other thing was in terms of number of employees if you could share breakup of number of employees indirect and agency channel?

Satyan Jambunathan: We have not given that breakup, but overall for the past four or five years we have operated with an average number of employees of roughly 12500, this year consciously we have expanded the employee base keeping in mind the opportunity that we see around us. Most of the expansion has been across some of our key partnerships as well as in the direct channel. We currently this year are sitting on an employee base of about 14000, 14500 and you will see that reflected into the employee cost also within the financial statements.

Nishchint Chawathe: And any colour if you could give across channels that would be helpful?

Satyan Jambunathan: We have not actually put out the split of manpower across channels.

Nishchint Chawathe: Breakup of AUM into equity and debt?

Satyan Jambunathan: It is about 48% equity, 52% fixed income at an overall basis. We have also tried to let us say this time around in the AUM is the composition of retail within the overall AUM.

Sumit: I had a question on your lapsation experience after the end of five years, so if you look at the EV sensitivity and VNB sensitivity there is quite an upside if the mass lapsation assumption improves for ICICI Prudential, so how is the experience now, when do you think you will have to relook at the assumption?

Satyan Jambunathan: At this point of time what we are seeing is actual experience within the assumption. It is not as if we have seen considerable improvement yet, surrender rates are still something that we are watching very closely. We would like to gain more comfort on the stability of that experience before we think of changing the assumption.

Sumit: Regarding product committee guidelines, one is around change in surrender charges what else could be something that could get affected in this guideline, is there any other two, three things that you would closely watch apart from this one?

Satyan Jambunathan: From a downside risk perspective, this seems to be the most important one. From an upside risk perspective of course the other elements, which are seeking discussion around parity on health, greater enabling of pension, greater freedom from an investment management so that the customer proposition become stronger can all provide impetus from a positive perspective.

Sumit: On 13-month persistency. There is a very slight decline in the nine months versus six months does that mean that the last quarter had slightly softer persistency and because that is a demonetisation quarter as well, so I am trying to kind of get some colour on that?

Satyan Jambunathan: It has not been any softening of experience, as we go through the rest of the year we will see that come back to those levels. So there has been nothing given on a trend perspective, which is looking weaker.

Sumit: If we were to recalculate the VNB margin on projected cost, but very rough cut can you give us because it will be very easy for us to compare the FY 9-month margin versus the FY 6-month margin, otherwise it is difficult to ascertain as to how much is driven by cost and how much is driven by product mix range and model change?

Satyan Jambunathan: Unfortunately at this point of time we are not giving that breakup. We will see as we get to the end of the year whether it make sense to give breakup of reason for change in margins, but at this stage this is all we have.

Sumit: 13.7% is based on cost assumption for the full year not for the quarter?

Satyan Jambunathan: That is right.

Vinod Rajamani: What is the amount of credit life is within the protection APE?

Sandeep Batra: We have been expanding all the lines of our businesses that we had given some data around it at the end of March, so we are focused on retail, credit life as well as group term product.

Satyan Jambunathan: The growth rates have been quite similar across all of the segments.

Prakhar: In terms of protection when we look at this space almost everybody would want to grow this towards this portfolio. Now when we look at I do understand that while the opportunity space is very high, but have we seeing some pressure on margins or how one distinguish between various life insurance company in terms of this product, its distribution mix or there is some change in the product that is also there?

Satyan Jambunathan: From a customer's buying decision perspective price may not be the only factor, of course it will be an important factor, but it is also very important for the customer to have comfort on the settlement of claims and the brand of the company and also if I look at the way the prices of term insurance are in the market at least for comparable brands the price difference is not very substantial it is all in a very narrow band. From an overall profitability of the term insurance portfolio of course the other thing which will be important on top of this is the mix between the retail and the other parts of protection and each of us in the industry probably will have a different mix coming from each of these.

Prakhar: In terms of overall margins when you look at this product segment have you seen some sort of pressure on these or it continues to be remaining at a level where it was a year ago?

Satyan Jambunathan: Not really I do not think margins have changed in the dramatic fashion.

Prakhar: Is there any seasonality when you sell this protection business throughout there as H1 is relatively softer H2 is higher something some seasonality in this protection business?

Satyan Jambunathan: There is no core reason for there to be seasonality. So our hypothesis would be there should be not too much seasonality, but sometimes the way distributors function could be different across various parts of the year so you cannot run away completely from seasonality, but unlike savings products where there could be tax compulsions at the end of the year for certain segment at least there is no reason for protection to have that kind of a seasonality. It is more of protection tends to pickup in growth when more and more distributors pick it up and start selling and that is more of a cultural selling behaviour, which will take its own time to evolve and grow.

Prakhar: What are the current persistency assumptions that we take into our margin calculations?

Satyan Jambunathan: What we had disclosed at the end of last year end results call was that for the savings business we had a persistency for 13th month of 82.5% we did not set out the rest of the assumption for persistency that is the only one that we had discussed.

Harshit Toshniwal: In the assumption difference, which we have made in this particular quarter it is only the opex assumption changes, which we have made. All the rest of the assumption changes will be as on Q4 only?

Sandeep Batra: You are absolutely that opex is the reason. As I mentioned given the seasonality of the business it will not be fair for me to use actual cost during the quarter. We use a forecast for the year and keep on refining it as the quarter progresses. For the full year when we give the actual cost. , There is no other change, which has happened.

Satyan Jambunathan: Next quarter it would not be an assumption anymore.

Harshit Toshniwal: So basically there is scope from assumption change apart from opex still in Q4 even from 13.7 levels?

Sandeep Batra: If the experience on the other parameters holds up then that is something we can consider.

Harshit Toshniwal: And on this month or so you are saying that the new products, which you are launching, but if I look at the trend from here on your primary focus is more adequate distribution of the commission expenses is that what we are moving towards, so when you are changing the new products what would be the key things, which over longer period of time, which we can expect to change?

Sandeep Batra: The change has already happened. As we have been saying that when the regulations changed we were not permitted to do any advertising and other kind of activities at our distributors end, so since the activities were stopped, but the activities were still important, they allowed our distributors to do those activities rather than we doing our self, so that is why it is important to see the expenses in aggregate. There are certain movements, which have happened between the opex as well as the commission line.

Harshit Toshniwal: What I am asking is that the change basically some of the opex has moved to distribution and because of this particular change and is this more front loaded so the change has been more towards the acquisition premium or it has been spread across the trail premiums also?

Satyan Jambunathan: No it is more towards the acquisition premium. Big difference is that it is now fully variable.

Harshit Toshniwal: So it is variable, but it is more loaded towards the acquisition. Single premium growth has been good in this particular quarter year-on-year even though sequentially it has been flat any specific product, which has grown in that segment?

Satyan Jambunathan: Largely the single premium business that we do is around credit life and individual annuities. There is nothing else that we do in single premium.

Hitesh Modi: My question is on persistency if you look at Q3 persistency number I think 13-month persistency is at 82% while for nine-month it is at around 86%, 87%, is there any specific reason for Q3 being lower than nine month?

Satyan Jambunathan: That measure of persistency will be a little different, that is actually a different block of policies that is coming into that. So what you see in the press release on persistency is business that was written exactly a year back, it will highlight at the bottom of the table what is the period for which the new business was, that business has not had enough time from the premium due date to pay the premium. What you are seeing in the persistency that we report in the analyst pack allows for the curing of people being able to pay the premium, so you will see some difference there, but that for the quarter will catch up as you go through the end of the year.

Hitesh Modi: So there is nothing significant to be worried about those numbers?

Satyan Jambunathan: No, normally what tends to happen is on the premium due date or within a month after the premium due date only a proportion two third to 75% of the premium due will come in at that point of time, the balance will come over a period of time and that is the kind of reflection that you will see, it is just a function of what business we are talking about.

Hitesh Modi: We are talking about the new products contributing significantly to VNB margins, but how much would these product like what percentage would be out of the total products that we have on in terms of total premium that we write back that should not be very large?

Sandeep Batra: The change has been in the unit linked segment. What we are selling now is the new unit linked, the old it has got discontinued since June. All of our Q2, Q3 unit linked mix is coming from the new products.

Hitesh Modi: When we take VNB margin at the end of year we still make assumptions about the futures right?

Satyan Jambunathan: That is correct, but that is a fairly smaller portion of the cost, only maintenance cost you are making an assumption and even there you are a not making an assumption into the future you are taking last year's actual maintenance cost and allowing for inflation on that.

Abhishek Saraf: The margin has gone up from 11.7% to 13.7% and at the start of the presentation you said that the two are not comparable, so is it just because the product mix has changed or is it something else also in this?

Satyan Jambunathan: No what we are saying is not comparable is that you cannot take the Q3 as only being a 9M minus 6M. If we are comparing the 13.7% for 9M margin it is probably more appropriate to compare against the 12.6% Q2 margin that we reported, which had the same products that we are selling now.

Abhishek Saraf: So the delta is basically around the 90 basis points not 200 basis points that were seen on the reported basis right?

Satyan Jambunathan: That is more or less correct.

Mahrukh Adajania: There is a lot of talk on tax rates for life insurance not only under DTC, but also possibly in the forthcoming budget, so what is the probability that tax could increase?

Satyan Jambunathan: If you were to just go back to the task force, which was constituted that task force has been more of a fact finding task force, so it is not very clear yet what the outcome will be, so it is very difficult to call the probability of that. We will have to wait and see what it means. I think there are a number of elements that will have to be kept in mind before such changes are made. One will be what is the implication from the old tax contribution versus new tax contribution to whatever anomalies there are from a corporate taxation structure across industries, second how the government would like to address that and three more from an individual customer perspective what would be the implications of that. So the debate on this has just begun. We will keep watching the space, but when you at a headline level have a tax rate, which is lower than the corporate tax rate it does seem quite obvious that it will get picked up for review, but like I said there are a few things, which have to be discussed before anything conclusively emerges on that.

Mahrukh Adajania: The DTC committee, but they can nothing stop them from still doing it in the budget right or it does not work that way?

Sandeep Batra: I do not think so we are in a position to comment how the government taxation policy will work. So we will just have to keep a watch on the space.

Mahrukh Adajania: What is your view on M&A in general because there is an RFP for IDBI Federal and then there are some banks that now want to get into manufacturing insurance, so what is your general view on M&A and what will be your stance on it?

Sandeep Batra: We have said that we will look in M&A if they add to our distribution muscle as well as is shareholder value accretive, so when an opportunity comes in and we will have a look at it.

Anand Jain: Why are there assumption differences across insurance players and inflation and discount rate primarily, so our major component of EV actually would be defined by how our assumptions are around these things and of course our EV, why are the assumption differences across insurance for a similar product the discount rate assumption would be different for say an HDFC or for an ICICI?

Satyan Jambunathan: I do not think there will be differences on discount rate because the way the method is defined the discount rate is just reading of the market on the date of the results. It will be the same across companies, sometimes people express it in a slightly different fashion or their source could be one or the other, but there will not be any significant difference between the discount rates of two companies.

Anand Jain: So I went through L42, which have been put out by different companies and for similar PAR, non-PAR or other protection product there is discount rate difference?

Satyan Jambunathan: L42 is dealing with the financial statements and the liabilities in that, but we are looking at embedded value. The L42 is not the assumption for embedded value. The economic assumption and the discount rate for embedded value typically will be part of the investor pack, if you see our last slide you will see the reference rates, which is the discount rates that are used for various tenures.

Anand Jain: I understand that rate, the discount that you mentioned in your presentation is similar across, but what I am saying is that when you are designing a product there would be a discount rate assumption there in terms of how do you value a product today?

Satyan Jambunathan: What that determines is how much liability I am holding on my books on a particular product and that can be different for a various reasons. It can be different because the underlying portfolios of companies are different, it can be different because people have slightly different use of interest rates, all said and done, and the objective of liability is very different from value reporting. Objective of liability is to ensure that what is held as a reserve on the books of account are sufficient under most scenarios to pay any claims that may arise, so inherently it tends to be a more conservative way of measuring liability and that is the reason why we have the embedded value framework. To the extent the two companies have a different discount rate for liability that will emerge a profit at various points of time, it is about timing, that is the only thing, which changes and the embedded value framework effectively capture any such difference into the EV itself. So I would suggest that it is probably more important to ensure that the embedded value assumptions on the economic elements are more consistent, it does not matter so much in EV terms whether the liability assumptions are different where it matters is, is for the P&L.

Anand Jain: Yes it will be like for the P&L and then of course it matters from a net worth perspective also right, which finally gets big into EV in some ways?

Satyan Jambunathan: If I am conservative in discount rate and liability and the reality is better I will get more P&L profit in the future and that more P&L profit in the future is what is recognized as value of enforce in the embedded value. If I had less conservative assumptions I would have it in the net worth, so this difference may fit either in net worth or in value of enforce business, but in the aggregate it is still within the EV.

Anand Jain: It is still in the EV in that way. In terms of policies we have like a very long gestation period of 30 years so how do we have a long-term asset liability mismatch for our protection product where this kind of scenario is there, so how do we manage that?

Satyan Jambunathan: The thing to keep in mind is that for the protection product the premiums are very small and normally most of my initial premiums are consumed for claims in those years and some for expenses. I do not build up a significant pool of investments until maybe five, six, seven, eight years in to the term of the policy. By that time the residual duration starts to come

down. So the duration issue mismatch is not so much of a problem in the early years and today if you look at it on the government bond side you do get government bonds of tenure of greater than 30 years so what our own experience is it is not very difficult to match the asset and liabilities on the protection business.

Anand Jain: I have is that we have seen scenarios in developing countries even in euro zone and Japan interest rates have gone to zero and even lesser than that, so how has an insurance company, which at multi decade kind of a process do we prepare for such scenarios in India, what do we do when designing a product, what kind of risks and entail if we happen to enter into those territories these kind of macroeconomic risks?

Satyan Jambunathan: The first step is to ensure that the guarantees that are inherent in the products are not too high. You cannot just give a guarantee based on the current levels; you have to keep in mind expectation of the future that is the first step to risk management. The second is the companies may have different views on how much appetite for risks they have. We have been quite uncomfortable taking on long dated interest rate risk on guaranteed return product so you will find that is a very, very small portion of our business. The third part of it is about how much of liability that you are holding and therefore how do you gradually start reflecting emerging environment into it. So specifically in our context it is not such a big risk given the product mix that we have and even where the product that we offer the implied guarantees are fairly low.

Anand Jain: Can we have a rough idea on the ROE of linked businesses over a longer period and what are our AUM charges that we can have on the linked business?

Satyan Jambunathan: The typical accounting metrics that we use for other businesses such as ROE or ROA do not work very well for us because of the way accounting is structured. I can use in ROE or an ROA if my accounting profit is more level. The pattern of profit is very different so that does not work so well.

Rahul Marathe: I just wanted to ask about our investment income like it has just gone to 2.5 times on a quarterly basis, so is it because of fair value change or have we realized it?

Satyan Jambunathan: A lot of the change that you will see Rahul on the investment income comes on the linked business and all of that goes back to the customer so it is actually P&L neutral.

Rupesh Tatiya: My question is comparison of cost vis-à-vis let us say LIC. LIC does not have any linked business and still the opex ratios are pretty low, and they do not have any bank relationship, so it seems they have pricing power, is there like a concept of pricing power?

Satyan Jambunathan: I do not think it is so obvious to compare expense ratios across different companies. A number of things could be different. One thing could be different is the mix between the retail and the institutional business that is done. The second thing that could be different is the mix between new business and renewal business, so I do not think that is such an obvious conclusion that we can draw. From our own perspective, the way we look at it is that the savings business the proposition that we deliver the customer is a function of how efficient we are on cost and therefore the improvement in expense ratios in the savings business is always a focus area for us. On the other hand as we are embarking on the new areas of protection we are willing to invest and to build that business so that is a segment where you would expect to see a

cost ratio being higher, but just to reiterate I do not think it is that straightforward comparison between two entities.

Sandeep Batra: I want to thank you for your active participation and all the questions that you have asked. Thank you.