ICICI Prudential Life Insurance Company

Earnings conference call

Nine months ended December 31, 2019 (9M-FY2020)

January 21, 2020

N. S. Kannan:

Good afternoon and welcome to the results call of ICICI Prudential Life Insurance Company for the nine months of the current financial year. I have with me here my colleagues, Puneet Nanda our Deputy Managing Director, Satyan Jambunathan our Chief Financial Officer and Amit Palta, our Chief Distribution Officer.

At the outset, I would like to mention some of key developments during the quarter.

In line with our agenda of growing protection business and reaching out to under-served customer segments, we launched Precious Life, the industry's first term plan specifically designed for customers who find it difficult to get access to life cover due to existing health conditions. Recently we also launched Lakshya, a participating product which provides an option of regular lifelong income with guaranteed capital protection and life cover.

On the distribution front, we partnered with Paytm for distribution of our flagship protection product iProtect Smart on their app. This allows KYC compliant users to take advantage of a paperless on-boarding experience and make an in-app purchase of the product in a matter of minutes.

On the regulatory front, within the sandbox framework, IRDAI has approved some of the proposals for Health, Motor and Intermediaries and we expect an announcement on the Life proposals soon.

On the customer metrics, in the previous quarter, we had launched Claims For Sure, an initiative to settle death claim in one day. We are happy to inform you that 99.4% of eligible claims have been settled in one day under this initiative. This has resulted in average claim settlement time of 1.4 days for Q3-FY2020. We have also built digital capabilities on our partners' portals to accept claim documents and expedite the settlement of claim.

During the quarter, Mr. V Sridar, one of the Independent Directors of the Company, has completed his tenure on January 15, 2020.

I will now talk about the highlights of our performance for 9M-FY2020 in the context of our key strategic imperatives. We have put up the results presentation on our website. You can refer to it as we take you through our performance. After my remarks, Satyan will discuss the performance in greater detail. At the end, we will be happy to take any questions that you may have.

As I mentioned in our previous calls, our 4P strategic elements i.e. Premium growth, Protection business growth, Persistency improvement and Productivity improvement continue to guide us towards our objective of growing the absolute Value of New Business. We had articulated our path forward for each of these strategic elements as well.

During the FY2019 result call, we had articulated our aspiration to double our FY2019 Value of New Business (VNB) in 3 to 4 years. This implies a

compounded growth rate of 20%-25%. In this context, our VNB grew by 24.7% to ₹ 11.35 billion in 9M-FY2020 as compared to ₹ 9.10 billion for the same period last year. This growth has been predominantly achieved through the growth in the protection business. Our VNB margin for 9M-FY2020 was 21.0% as compared to 17.0% for FY2019. The results achieved so far give us the confidence that we continue to be on our aspirational path of VNB development.

Coming to the first P of our strategic element which is Premium growth, for 9M-FY2020 our Annualized Premium Equivalent (APE) was ₹ 54.07 billion and new business premium was ₹ 81.73 billion. In APE terms while the growth was 1.2% for 9M-FY2020, in Q3-FY2020, APE growth was 4% year on year and 7.3% sequentially. The new business received premium for 9M-FY2020 continued to demonstrate strong growth of about 20% year on year. Also for the retail business, we had put in place various initiatives across distribution and products, and within product initiatives, we continued to focus on diversifying our product mix. For annuity business we initiated a facility by which a pensioner can digitally submit the life existence verification documents. With the above initiatives, for Q3-FY2020, non-linked savings business growth continued to be robust as premium almost doubled year on year. This growth was primarily led by annuity and participating businesses. Linked product mix stood at less than 70% of our APE for the quarter and 9M-FY2020 as compared to over 80% in FY2019 providing further diversification in product mix and resilience to the business model.

Similarly on distribution channel diversification, non-bank channels contributed to about 47% of our 9M-FY2020 APE as compared to about

44% in FY2019. Within this, while agency channel remained flattish for 9M-FY2020, it grew 11% year on year for Q3-FY2020. In Agency, the focus has been on building a long term sustainable growth model through deepening our penetration in under-served customer segments. We also supported the agency distribution team with Chat Buddy, a virtual assistant, to address queries on performance, incentives and KPI achievement. These initiatives have led to almost half of the agency business being contributed by annuity, protection and participating products providing further diversification to product mix. We continue to work on adding new distribution tie-ups, such as the one I mentioned earlier in the call.

On the second P of protection business growth, we continue to make significant progress. With our focus on retail business and building partnerships, our protection APE for 9M-FY2020 grew by about 66% year on year. With an APE of ₹ 7.64 billion for 9M-FY2020, protection business not only accounts for 14.1% of overall APE but has surpassed the last full year number. This growth was led by both retail and group protection businesses. Within protection business, retail protection continues to dominate the mix. I would like to reiterate that our protection business is pure protection cover and does not have a savings component unlike protection with return of premium plans.

The continued growth and increasing mix of protection have contributed to the margin expansion year on year.

On the third P of persistency: This metric continues to be a key measure of our business quality. Our 13th month persistency excluding single premium was at 83.1% which is lower as compared to FY2019. This is

primarily attributable to a specific cohort of policies which show lower persistency and we continue to work on this pool by encouraging our customers to stay invested longer. Our 49th month persistency improved to 64.3% at the end of December 2019. I would like to highlight that our persistency rates continue to be one of the best in industry as well as better than the assumptions used in the VNB and EV. Satyan will update on the persistency movement in greater detail.

On the fourth P of productivity improvement, we continue to leverage technology to improve cost ratios. However, as we continue our focus on protection, we are also conscious that we will have to invest in this segment. With robust growth in protection business, our cost to TWRP ratio was 16.6% for 9M-FY2020 as compared to 15.4% for 9M-FY2019. The cost to TWRP ratio for the savings business has significantly improved to 11.1% as against 12.0% for 9M-FY2019.

As I mentioned earlier, the outcome of our focus on these 4 Ps has resulted in our Value of New Business for 9M-FY2020 of ₹ 11.35 billion, a growth of 24.7% over the same period last year. The VNB margin for 9M-FY2020 is 21.0% as compared to 17.0% for FY2019. We will continue to focus on expanding the absolute Value of New Business going forward.

I thank you for your attention and now hand over to Satyan to discuss the results in greater detail.

Satyan Jambunathan: Thank you Kannan. Good afternoon.

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

In 9M-FY2020, premium growth in terms of APE was 1.2%. Weakness in the macro environment and volatility of the equity markets has resulted in a 14% decline in the linked business. Through the focus on other product segments we have mitigated the impact of the linked business decline on overall APE. Specifically the non-linked savings business and protection segments continued to grow well. Non-linked savings growth was primarily led by participating and annuity businesses. Participating business saw robust growth of 38% during 9M-FY2020 to ₹ 6.11 billion, contributing more than 11% of the overall APE. Annuity premium has almost doubled during 9M-FY2020 to ₹ 0.71 billion in APE; which is about ₹ 7.10 billion in terms of new business received premium. Retail non-linked savings business has almost doubled in Q3-FY2020 resulting in growth of 73% for 9M-FY2020. With this the ULIP contribution was at about 69% of the total APE in 9M-FY2020 as against over 80% in FY2019, providing us with diversification in the product mix.

On the distribution channels, we have continued to invest across channels and specifically in the agency channel. For agency channel the approach has been to ring fence the high productivity agents while increasing the activation of others. For the ring fencing, initiatives such as closer mapping with sales support team, increased training intervention etc. were undertaken to sustain the productivity. We also focused on

adding new agents to the distribution. For 9M-FY2020 we added over 18,500 agents to the distribution force. Almost half of our agency business for 9M-FY2020 was contributed by participating, annuity and protection products.

Within the bancassurance channel, the focus on growing protection mix has continued into 9M-FY2020. The protection mix for bancassurance channel has reached a high single digit. In the case of corporate agents and brokers, the focus on protection and non-linked saving segments has resulted in a significant contribution of business coming from this channel. We have also tied up with various non-traditional distributors such as web aggregators, payment banks, small finance banks, insurance marketing firms and continue to build new partnerships, some of which were highlighted by Kannan in the quarterly developments. We thus have a well-diversified distribution mix with non-bank channels contributing about 47% of our 9M-FY2020 APE. In terms of customer segments, retail business continues to dominate our new business contributing more than 90% of APE. The growth in the group business APE has been primarily driven by protection products.

As mentioned earlier, we continue to do well on the protection business, which is the second strategic element of growing VNB. With an APE of ₹ 7.64 billion for 9M-FY2020, the protection business grew about 66% resulting in the protection mix forming 14.1% of APE. Within the protection business, retail protection saw the fastest growth during the period.

The third element of persistency. For 9M-FY2020, we have seen some decline in persistency primarily from the linked business and within

linked, from a specific cohort. I would like to reiterate that persistency of other product segments have been stable. For 9M-FY2020, our 13th month and 49th month persistency excluding single premium was 83.1% and 64.3% respectively. We have taken various steps across employees, customers and distributors to improve it further. Keeping in mind the assumptions in the margins, early period persistency in particular and surrender experience still continue to be better than the assumptions factored in the VNB and EV calculation.

The fourth element of cost ratios. Our cost ratios coming down over the years. Further, we have been saying that as we continue to focus on protection products, the cost ratios may increase as the cost ratio for protection segment is higher. Our cost to TWRP ratio was 16.6% for 9M-FY2020 as compared to 15.4% for 9M-FY2019. Within this the cost to TWRP for the savings business continue to decline 11.1% compared to 12.0% for 9M-FY2019.

The outcome of our focus on these 4Ps has resulted in our Value of New Business of ₹ 11.35 billion for 9M-FY2020, a growth of 24.7% over the same period last year. This growth has been predominantly achieved through the 66% growth in the protection business which I talked about earlier. The VNB margin was 21.0% for 9M-FY2020 as compared to 17.0% for FY2019. There were no assumption changes during this period and the margin changes are predominantly driven by the product mix.

The profit after tax for 9M-FY2020 was ₹ 8.89 billion as compared to ₹ 8.79 billion for 9M-FY2019. Solvency ratio continues to be strong at 207%. Our AUM was more than ₹ 1.72 trillion at December 31, 2019, a growth of 14.6% year on year. Our investment philosophy is aimed at ensuring

consistent, stable and better risk adjusted performance over the long term to policyholders.

To summarize, we continue to 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.

Prakash Kapadia: I had two questions. If I look at the cost side, specifically employee expenses, they are up almost 22%, 23% this quarter. So is it the impact due to some interest change or actuarial change or there has been a significant employee addition?

Satyan Jambunathan: Prakash, over the nine months period, if you see our employee expenses, they are up about 8% compared to nine months of last year. Normally, when we do the build-up of employees, it is keeping in mind the seasonality of the business as we get into the last quarter, which is the most productive quarter for the year, the count of employees generally increases a little bit. But overall, employee cost increased at about 8% versus same period last year, it's actually well lower than the 25% growth in VNB. So we are quite comfortable with the employee cost.

Prakash Kapadia: And I think last year-end we had around 17,000-odd employees. Any number you can share as on date in terms of number of employees?

Satyan Jambunathan: 17,000 employees, Prakash, was in March 2018. By March 2019, we were at about 14,000 - 14,500. Even currently, we are at about 14,000 employees.

Prakash Kapadia: That is helpful. And secondly, Kannan did mention, and Satyan, you also mentioned on the ULIP side of the APE. So if I look at overall benchmarks, they are pretty buoyant and as in the presentation and in your opening remarks, you mentioned we are roughly down 14%-15%. So what is the near-term outlook as we enter the busy quarter, Q4 is typically where you see most of the sales happening. So any trends you are seeing, anything you can share? And what is affecting ULIP kind of APE growth, if you could comment, that would be helpful?

N.S. Kannan: When we looked at the numbers for six months of the current fiscal year, for which we have the data across the industry, we found that on a year-on-year basis across the industry, total also, ULIP was a decline for new business. So it is not that we are alone in terms of a decline is what the first thing I want to tell you. So based on our analysis, it looks like a little bit of a demand compression on the ULIP side. Essentially, because while recently the markets have been doing well, if you look at over a longer period of time, there has been some volatility around the market. So that seems to have impacted the flows.

So the way we think about it is that ULIP continues to be a very transparent product with a low charge to the customer. So even at 70%, it is a very dominant part of our portfolio, so we will continue to be focused on that. And as you have seen the cost ratios, we will be probably no.2 in terms of the best cost ratios in the industry. So with that cost ratio, we are able to manufacture ULIP much better than others. So I think that

focus will continue, but the exact growth and the resultant product mix will be a function of what the customers need at specific points in time. So that is the way we would look at it.

And also, what we have done during this period is that recognizing that there would be specific customer segments who may not be bothered about the daily NAV, they may not be bothered about very high returns of market investment, but they would like to have a smoothened return over a period of time with the protection of the capital, we have introduced products. In the non-bank channels we have been focused on non-unit-linked savings product as well. So if you see some of the numbers in terms of product wise growth, we have seen that in the savings business, non-linked products have registered a very strong growth.

I think on a year-on-year basis, it will be close to 70% kind of a growth is what we have seen. So that is something which we have been doing to address this market. And that is the reason why in the third quarter, if you look at it, the savings business decline which we have shown in the six months, has pretty much had become flat. So that is something we have been able to achieve. So to answer your question, our focus will continue to be expanding the VNB and product mix will be a resultant of customer demand during those periods in time.

Anand Bhavnani: I have two questions. I was looking at the longer-term performance since inception, in fact, for us and for other peer private entities. Now what I noticed was we had been leading the private sector insurance as a pack until 2008 and thereafter we went side wards. And in the last few years, while we have got back the momentum from FY14 on,

the momentum that other peers have maybe due to their product mix or due to their higher productivity, has been much higher.

So my question to you is, from here on, you are guiding that you'll double the VNB in next three, four years, is that guidance based on your expectation of product mix change to higher margin protection business or is it more productivity driven? And if you can give me a sense of how realistic do you think it is? Is it an aspirational goal or whether it is something which is within the realms of possibility?

N.S. Kannan: You are right that we have expressed our aspiration of doubling the last year VNB over the three to four years. And as I said in my opening remarks, this amounts to something like a 20%-25% kind of CAGR during this period. So if I look at our actual performance in the nine month period against the aspiration we have articulated, I said that with a 24.7% kind of a growth rate, we seem to be following that path of aspiration. So I would like to say that we have taken our own articulated aspiration very seriously. So to that extent, we want to be delivering on that. So that is the first point we want to make that it is not just an aspirational statement, it is something which we want to actually achieve.

Now if I look at the development of VNB during this period of time, as you know, this has been largely driven by the margin expansion. So it's not so much of a top line growth, but it is the margin expansion. So with the margin expansion, from 17%, we have got to 21%. That movement will be about 23.5%. And little bit we have got on the top line movement. So that's why we put out this 24.7% kind of a growth.

This margin expansion, obviously, has been driven by the product mix change. So during this period what came in handy was the movement of

the protection in terms of overall growth and thereby constituting a higher mix. And if you look at the protection number last year same period, there was about single-digit percentage growth. From there we have been able to move to 14.1%. So yes, a) it is a statement which we take seriously, we want to deliver on the VNB and b) so far, the expansion is caused by margin and which is on account of the protection mix.

And going forward, to answer your question, our sense is that in the near term we do expect the protection mix to continue to expand over a period of short to medium term. Because we expect that the growth rate in protection will exceed the overall growth rate of the company on the top line basis. And given the relative margins, I think without speculating about a particular number, which we have not really computed, we do believe that there is some room to answer your question on expansion of the margins through a product mix. So that one part of the story will be there.

Productivity, yes, as you said, one of our key points has been that we are one of the most efficient producers of life insurance in the country today, in the industry. And we have used technology and other aspects very, very well to ensure productivity improvement. And if you really look, whether if you look at it on the number of branches or the number of the cost itself or if you look at the number of people, whichever way look at our physical resource allocation vis-à-vis our APE development, you would see that over a longer period of time, it is that we are doing the same APE with half the resources. Now, that is the way we have produced these numbers. So in fact, over the last decade, if you look at top line would be pretty much flat compared to what it was 10 years back. And

now, number of people, number of branches and resources and cost everything you look at it, we are half of what we were at that time. So I think productivity wise, we are there. But again, at some point in time, probably in the protection side, the economies of scale will operate. There is some possibility in the future to get better on productivity. But savings, I think we are pretty much there. Maybe the improvements we will get will be only marginal because we have brought down the savings cost ratio quite drastically. So yes, there is some improvement, but my sense based on our own view is that pickup in margins is not likely to be as high as the pickup from product mix in terms of protection.

So at some point in time, to answer your question, finally, the sales growth will have to contribute to the VNB growth. So that would be the overall volume expansion will have to come handy. We can afford to manage through a product mix change for some more time before the overall sales starts helping us in terms of the absolute VNB expansion. So the view we have is that during this period we have tried hard to keep our product mix much more balanced than what it was 1.5 years back. That has been the focus of the executive management team. We were 85% plus ULIP company, we didn't really panic. We said that given the demand compression, we should look at other avenues. So one side we had expanded the protection. Our own estimate is that in the retail protection our market share will be anything between 25% and 30% today. That is our own estimate.

So there, we have made significant inroads. Then, in the savings side also we have expanded, as I mentioned, annuity. We have been growing, at almost 100%. And we have sold participating and other traditional

products, which we have been introducing. And because of which we have been able to mitigate the negative growth of ULIP somewhat through introduction of these products. Of course, it is taking a bit of time because ticket sizes on a relative basis are much lesser in the non-ULIP savings products compared to ULIP products.

So I think by the time we get our act together in terms of good product mix, at some point in time, of course, ULIP demand also will return, we will be in a position to exploit that as well. So, yes, it is a very serious aspiration, something which we would like to pursue. And these are the three methods through which we would like to pursue. And this time around we have kept the product mix much more diversified. So maybe the volatility will not impact us as it impacted about a year back.

Anand Bhavnani: Sure. And secondly, I just wanted to understand with respect to our banca partnerships. Have you been able to penetrate any of the large PSU banks in our relationships?

Puneet Nanda: We have a partnership with about 13-14 banks, of which, the most significant obviously are ICICI Bank followed by Standard Chartered Bank. Other than that, we have a number of banks, but most of them are smaller to midsized banks. As of now, none of the PSU banks are partnering with us. Having said that, there are discussions, obviously, going on at all points of time. And we will announce if at all something fructifies.

Anand Bhavnani: And with respect to the ICICI Bank, are we penetrated in all the branches? Like, would it be fair to say we are 100% penetrated in ICICI or is there any scope for further leveraging that franchisee?

Puneet Nanda: There are a number of ways to look at penetration, one way is branches. I think in some form or the other we would have presence. But if you look at penetration in terms of the customer base, I think it is still quite modest. There is a lot of scope still to improve penetration levels among the customer base. Within that, of course, if I further segment the customer base, in the affluent segment, I think penetration levels are high. But in the mass segment, penetration levels can significantly improve even from here.

Anand Bhavnani: Sure. And lastly, if you can comment your view on credit protection as a product? And how much of our protection business has credit protection contribution?

Satyan Jambunathan: So the split of the protection business across the segments we tend to give at the year-end, so we will give that then. At the end of last year, just to give you a flavour, retail was over 60% of the protection business. Credit protect was about 20%-22%, and the balance was group term. This year, most of the growth has been driven by the retail business. In fact, the share of retail business has increased in the current year.

Nidhesh Jain: Firstly, on the persistency. Our threshold persistency, as I understand, is around 82.5% and overall, persistency for this nine months is around 83.1%. So we are very close to our threshold persistency and probably on ULIP business, maybe we are very close to 82.5%. So how do you see that impacting our margins going forward?

Secondly, in this quarter, we have seen quite a strong movement in equity markets, but ULIP growth is still negative 11%-12% for the quarter. Plus,

we have seen a negative impact on persistency. So any thoughts on that, why is that case?

Satyan Jambunathan: On persistency experience vis-à-vis assumptions, you are right that 13th month is now fairly close to the assumption. So the last quarter is going to be very important for us to claw back a bit more from where we are. But as we speak now, we are not unduly concerned about negative impact on margins coming out of this.

N.S. Kannan: I just wanted to say that it's not that with the 83.1%, we are going to stop there. We are making specific efforts to make sure that we bring up the persistency. In the last year also, if you see, the way it has developed is that we have always brought it back. So that effort is on, we are reasonably confident of getting it up. And on downside, as Satyan mentioned, we don't see assumptions getting threatened. That's obviously, as we always mentioned in the past, before we put out the margins, we look at the expectations for the whole year and look at the sustainability of the margins before we put out the number. So 21% margin should be taken in that context. So that is what I wanted to say, otherwise we would have had to adjust it already. I mean, so the fact that we have continued with the margin should give you confidence on that.

On the ULIP side, again, on these two aspects I will ask Amit Palta, our Chief Distribution Officer, to give his thoughts on how he is planning these businesses. On ULIP side, clearly, it takes some time for it to come back and turn around. Because some of the lower ticket customers on the ULIP side, from our sense, is that they may have migrated to some of the non-ULIP products. That could be one of the reasons why you have seen a continued muting. But going forward, as I said, should the market

stabilize, generally institutional fund managers' fund performance is also coming up. At some point in time, I am sure that ULIP will come back in terms of growth. But in the short run, it has been a continuation of what has happened. Though the negative, as you rightly said, for Q3 has been less than what has been the negative in the past in the ULIP side, we continued to be focused on that.

Amit Palta: Like in ULIP, as we see that being a long-term contract the impact of the markets actually is visible over a lag. So anything adverse or volatility in the market impacts life insurance as a product a little later. Similarly, an upside in the market also starts showing an upside with a lag. So we hope that if a market stabilizes and volatility is taken care and the macro factors start favouring, the sentiment will probably come back.

And we are now positive that while we have worked on diversification on looking at non-ULIP products on the savings side by reaching out to underserved customer segments in the past, we have not vacated that space. We are very much there and still ULIP standalone holds close to around 70% of our overall mix. So we are quite positive that we have the wherewithal to capitalize on any positive upswing that we see from the market, which will have a positive impact on ULIP. And that's the same which is coming across all the channels. And we stay invested very much in our value segment that is our core. That is the fundamental that we have built the organization by having a strength in our affluent segments. And we, of course, stay as positive on the markets as you are. But the only thing is being a long-term contract, even the positive will have a lag effect. So we will wait and watch and see how it goes from here.

Specific to your question on persistency. While Satyan clarified that the numbers are still well within limit for us, but our core fundamental on the steps that we have taken on persistency has actually not changed. The core fundamental for us was about smoothening the process at the time of sale to the customer, selling it right to the customer, ensuring that there is a process simplification through an attachment of ECS so that there's an ease of payment of renewals, that continues like the way it was in the past. Whether it was a fundamental delivery from the sales management team by incorporating it in their performance management, it is very much there even now. It's just that now on we have got into a deeper analysis on cohorts which are on a monthly basis, and we are working specifically on cohorts where we see that the behaviour or the results and outcome is probably a little different from the rest of the portfolio.

So our ability through a very strong analytics in the back end gives us the strength to now work on very sharper cohorts to look at improvement areas. And of course, through technology, we are finding out ways and means of reaching out to these customers with a proposition which is more meaningful to them to continually keep working on persistency. So I am very confident that the core fundamental and our focus on persistency has not changed. The environment may have changed, but it has necessitated us to push more on analytics-based approach towards addressing our persistency.

Harshit Toshniwal: Two questions. One, when I look at the business segments, so in savings, the other, basically non-linked, non-par, apart from par and annuity, the non-linked product has also seen a sharp

growth. So it grew around ₹ 2.57 billion for nine months. Can you throw some light on that particular number?

And two, when I look at protection, sir, even if I assume, for example, a 100% margin based on what we made in FY19, my VNB margins for in savings business does not look very high. Just want to understand that despite the protection mix improving, the margin improvement has not been to that extent.

Satyan Jambunathan: To address your question on the non-linked savings, the others, that comprises both non-par savings as well as group funds business. Non-par savings still continue to be a much smaller portion of our mix. And where we offer non-par savings still like we were doing before is in the up to 15-year maturity tenor at lump sum maturity. So we always say that we do some business that continues to be there. Compared to last year, yes, the growth is stronger. But some of the growth in this segment has also been driven by the group funds business from the last year.

Harshit Toshniwal: Okay. So that is what majority of this would be the group savings business.

Satyan Jambunathan: Both of them. So the growth is also coming from the non-par savings business, but that is still a fairly small part of our overall business.

Harshit Toshniwal: The way I am looking at is, in FY19 we had a 109% protection margin, based on the disclosures which we gave. If I assume the same margin or similar margins in this particular nine months business, then my back calculated savings margin comes down to at

around 6.5% only. So that is where I wanted some more clarity that am I going right? Or is there some margin dilution in the protection segment itself?

Satyan Jambunathan: No, your approach is very correct. The couple of things that we need to keep in mind are; one, the margins that we are declaring after nine months are based on projected cost to the end of the year, which is still an estimate at this point of time. At the end of the year, it will become comparable to what you had for full year last year. Second, within the protection business, underlying profitability hasn't changed, but the mix of business has changed a little bit.

So compared to the nine months last year, where regular pay policies were higher in the retail protection. This year, limited pay policies have grown in terms of mix. So that is an underlying mix issue, which will come through in the margin when you look at it for the full year, but fundamental profitability of each underlying segment has not changed meaningfully for us.

Harshit Toshniwal: Okay. And then what would be the difference in margin between a regular and limited pay product?

Satyan Jambunathan: The way we priced it was that in absolute VNB for the same sum assured, both the regular pay and the limited pay will be similar contribution. We have always maintained that our objective on the profitability is to grow absolute VNB, not necessarily a margin driven approach. So the idea was neutrality on absolute VNB.

Harshit Toshniwal: Okay. But limited pay, the denominator is higher.

Satyan Jambunathan: That is correct.

Harshit Toshniwal: So the large part of it is because of that?

Satyan Jambunathan: That is correct. There's no other fundamental change which has happened.

Harshit Toshniwal: Okay. Got it. And just last, if we can just give the mix of regular and limited pay in the incremental business?

Satyan Jambunathan: We have not put that out maybe at the end of the year, we will consider giving that split.

Suresh Ganapathy: Quickly, we have talked a lot on this growth aspect. The real problem that I have got is that, really, if you want to double your VNB CAGR, you have to get the growth aspect, right? So is there a specific growth target which is given to each of the individual businesses? How the performance is assessed against that?

Or is it about absolute VNB target, it doesn't matter how it comes, and growth can take a back seat. Just wanted to understand a bit better on how you are really driving the sales process here?

And second aspect is on the agency channel, could we see a similar amount of agency addition next year also? I mean, so far this year, you have added 18,500-odd agents. I mean, will the same pace of agency addition continues so that you can drive the protection business to a greater proportion? Or you think more productivity benefits can come from the agent, and therefore, the level of agency addition can reduce?

N.S. Kannan: On the first question of VNB expansion. As I said to earlier comments, there is still some way to go in terms of the relative products contributing to the mix expansion from the perspective of margin expansion. So that is something which we believe that it will happen in

the short term. But you are right that at some point in time, overall, top line growth we will need to push our VNB going forward. But in terms of how we drive, essentially, we don't give targets for VNB to down the line. It has to be disaggregated to a top line target. And also, specifically, there are targets associated with individual products as well, because protection there has to be a separate target and so on.

So I want to assure you that from a sales process and the sales metric rollout and performance perspective, we do have clearly set growth targets, which are given region by region and we have full granularity in terms of resourcing and how to get to the targets. And as I said, some of the initiatives we have taken in terms of diversifying the product mix should support growth going forward. Irrespective of what happens in a particular segment, our growth should be more resilient compared to what has been yet in the past.

Second, on the agency channel. The good news here is that Q3 has been a little bit of a turnaround for us from an agency perspective. So all the hard work we have put in the last four and half years in terms of granular agency formation, the agency metrics computation, driving the agency in terms of incentives have resulted in finally in the month of December if I look at the agency coming back to a double-digit growth rate. So that is something which is very beneficial.

And the fact that we started selling non-linked products in the agency as well has contributed. Because some of the customer behaviour, especially the agency covered customers, has been around some kind of a capital protection and the minimal guarantee and so on, where the participating traditional products have fulfilled that need of a client. So

probably some of the business in the past, which would have gone away from us has started coming back to us because of which the agency channel now has started going up in terms of contributing to 21% to 22% of our mix.

On the agency additions, we will continue to add a similar number of agents that will be required. Because when we look at our expansion of product mix in agency, we do believe that there is a potential to add people, not just extracting productivity from this. So, I think what we have done so far in the agency channel is that we have been able to stabilize the diversification. Today, it becomes, as I said in call, about 50% of it comes from the non-ULIP of products, which is quite a big change in agency compared to how we have run this channel in the past. Having diversified, now we have got the confidence to grow the agency channel.

Let me just ask Puneet to supplement especially the first question on how we drive the sales system in terms of VNB expansion.

Puneet Nanda: In any large retail team we need to have a set of parameters. You can call them balanced score card, you can call them KPIs or whatever, through which you drive the team. And obviously, they are disaggregated right down to the frontline salesperson. So in our case, as we have been saying, VNB is actually an outcome of the 4P. So pretty much around the same 4Ps, there are targets which are given to everybody, which will be around premium growth, which will be around persistency, which will be around protection and indeed productivity. And all of this gets tracked at a very, very granular level. That's the way things are run. So it's not as if VNB will happen on its own, it will be out of all of these things only. Agency remains a very, very core channel for us. It is a

channel on which not only will we continue to invest by way of adding more agents, we will also continue to invest by bringing in more use of technology to make it more productive as well. Some examples we have given today, but a lot more will continue to happen.

Ultimately, at the end of the day, we need to not just make sure that we deliver on the VNB objectives we have set for ourselves; we also need to make sure that we meet the needs of the customer depending on the underlying customer set and depending on the evolving environment. So many of these things actually change based on that. So the preferences of the customers sometimes keep changing depending on the environment. So we do have to keep that also in mind. So it's a combination of all of these things, which will finally deliver the outcome that we have articulated in terms of doubling VNB growth.

Shreya Shivani: I have two questions. First is on the RWRP. So, if we go by the monthly disclosures that ICICI Pru Life puts out, the beginning of the year had been a little tough on this, the numbers were quite weak. But in the last few months, we have seen significant growth, mid-teen growth seen in RWRP numbers. However, when I look at the results right now, the market share based on RWRP has steadily been falling from 10.8% in nine month previous year to 10.3% in FY19 to 9.5% right now. So just wanted your comments on this?

And my second question is on the change in actuarial liability. Apologies if this is a very basic question, but I wanted to understand that. If I see it on a quarterly basis, this number has increased by 50% if I see 3Q over 3Q. But your commentary in the press release talks about how on nine months basis it has reduced. So could you please help me understand

how to look at this number? And should I be concerned with the growth that I see right now in 3Q?

Satyan Jambunathan: Sure. So let me address the actuarial liabilities first and then we will get into the RWRP and the APE growth. From an actuarial liability perspective, the elements that drive change are premium income and investment income, given that most of the liability arises from the savings business. So when you actually look at the change in liability in the context of premium income plus investment income, I think you will find it very stable across the quarters.

To address the second part of your question with respect to the RWRP growth versus APE growth. RWRP growth was also relatively stronger in certain parts of this year, because of some of the things on the ground that we were using in the last year. In Q3 of last year, if you remember, we were in a situation where the markets were quite volatile and unit-linked growth was struggling. So one of our mechanisms then to stimulate distribution was to encourage our distributors to go out and talk about monthly premium sizes. Monthly premium cases effectively gave us lesser RWRP, but over a 12-month period it gave us the higher APE. So some of the RWRP, APE growth divergence that you are seeing for one quarter in this year was because of the base effect. Otherwise, broadly, you will find that the RWRP and APE growth tend to track each other.

Hitesh Agarwal: I think you have alluded to this before, but just on the ULIP APE growth. We understand that equity markets have been lacklustre and investor participation comes with a lag, as you mentioned to a query earlier. I just wanted to check is there a change in strategy in

this particular segment or basically it's a function of the investor preference or the client's preference?

Puneet Nanda: We don't actually have any objective in terms of product mix within savings. We do have an objective that we want protection to grow disproportionately. But within savings, it is largely driven by the customer need, driven by what the distributor thinks is appropriate for the customer. It evolves depending on the environment. It also evolves depending on the mix of customers and the different customer segments who are currently buying our products. So ULIP has been impacted largely because of demand compression in market linked products.

Ajox Henry: Sir, my question is with respect to the limited pay, which Satyan was talking about a bit earlier. Since it's a five pay and we are covering till 85 years of age, what are the risks with the product? Number one, with respect to mortality? And number two, persistency obviously goes up dramatically 61st month, so have you factored that in actuarial while filing the product?

Satyan Jambunathan: We have, Ajox. But distinctly, if you look at the risks specific to this shorter pay, longer stay will also introduce an element of interest rate risk. So we are quite conscious of that. So it is not as if we do our business only in five pay. A lot of our business is longer pay. But if I were to look at it from a customer's perspective, people with variable income streams were willing to commit for a shorter period of time. The limited pay term life is a very, very useful tool for them to be able to buy the same cover. And that's the reason why we are comfortable offering that.

Ajox Henry: And sir, has the traction been increasing over the past few months, at least directionally?

Satyan Jambunathan: The limited pay actually picked up for us since December of last year. If you recollect, that is the time when we introduced it. So if you see the base third quarter of last year, there is some limited pay. But since then, the limited pay has been quite a popular way of paying premium in the protection business and just to go back to your other questions on persistency and mortality risk on the limited pay, they are no different from what it is on the regular pay, except that on the limited pay persistently tends to be actually better than the regular pay.

N.S. Kannan: And the premium amounts are obviously different because the way we compute it for a shorter period, premium amounts will be quite different.

Ajox Henry: Okay. And sir, on Precious Life, what Kannan was talking about, how is the traction for that? And how are the margins for that, again, is it better than the normal protection product?

Satyan Jambunathan: It's very early days, Ajox. The concept is very innovative. And typically, whenever you have a new concept that comes in, it takes time for people to pick it up. So it's something that we will watch over a period of time. But very simply, our approach or the reason for doing it was to go out there and tell customers that you don't have to be worried about whether you are in good health or bad health to buy term insurance. That was the main purpose behind us going out and standing up and launching the product.

Ajox Henry: Understood, sir. Sir, just one more question on your ULIP bundled product, which has both ULIP and Protection bundled. Won't that impact the NAVs in the long run? Because the multiple is higher, the protection which is being offered in the premium product it is 10x the premium now has become 50x-60x.

Satyan Jambunathan: So, Ajox, the bundle is actually two different products into one. The additional protection component does not affect the NAV at all. Somebody who buys it, buys it consciously to get a slightly higher cover. So to that extent, the person buying it is aware that there is a return-oriented part of his premium and there is some protection-oriented part of his premium.

Ajox Henry: Okay. And your mix also separates this out?

Satyan Jambunathan: Absolutely. These are two different products at the back end. It's a combination of two products. It's not one product.

Nischint Chawathe: I was just looking at the segmental reporting that you put out on the exchanges. Now when I am looking at non par segmental surplus, on a year-on-year basis, there has been a significant increase out there for almost ₹ 83 crores or something like around ₹ 235 crores of a deficit. So just trying to understand what could be the reason for this. This, I believe, mostly represents the protection business.

Satyan Jambunathan: That is correct. And that is where the new business strain is. Like I said also that even within protection for this period, the retail protection growth has been the stronger component and that is getting reflected in the P&L.

Nischint Chawathe: Sure. So let's say, looking forward from the next year onwards, I believe the VNB growth driver is going to be more a function or more a balance between volume and margin expansion or, let's say, the share of protection expansion. Then would it be fair to say that the growth next year we would see is possibly not as sharp as what we are seeing this year? And especially, if I look at the nine months number that the growth is fairly stark.

Satyan Jambunathan: This is going to depend on the rate of growth of protection business. Eventually, that will determine the outcome. So if protection growth moderates, then the new business strain growth will also moderate. But I think it will still continue to be a negative P&L segment for some time because my in-force profit is nowhere near large enough to be able to support new business strain.

Nischint Chawathe: Fair point. But the point what I am trying to say is that, if next year's VNB growth is going to be slightly more balanced between APE growth and protection-driven VNB margin expansion, then it may be fair to say that the growth in deficit may not be that stark. And in that sense, your bottom line numbers or your PAT numbers can start really inching up.

Satyan Jambunathan: That is possible. But like we have discussed before, I think the priority for us is to grow the VNB.

Prayesh Jain: Just a couple of questions. Firstly, on the ULIP side of the business, is there a conscious strategy to reduce the ticket size and hence we are looking at higher than the industry decline in volumes? Or is that a conscious strategy there?

N.S. Kannan: No, there is no conscious strategy in terms of ticket size reduction at all, I want to assure you. Last year, around the same period, if you remember, after the October decline of last year we had come back and we wanted to activate the distribution because of which we had introduced monthly policies last year around the same time. That strategy, again, some people misconstrued us as forcibly reducing the ticket size. That is clearly not the intent at all. So that strategy was aimed at, as I said, activating the distribution, which worked well for us. That is one of the reasons, if you look at it on an APE basis, we are somewhat muted on a year-on-year basis because of that base during this quarter. So that is one part.

Second, if you really look, though we haven't disclosed in the intermediate period the exact average tickets, etc. I can give a colour on how this has developed. We have not seen any reduction in the ticket size on the ULIP side. So the way it is turning out is that the customers who are belonging to not the most affluent segment, but the second, third affluent segments or lesser affluent segments, it's a little bit anecdotal a little bit we have seen the data, they seem to be preferring more like a par product kind of a thing or a traditional product, which either gives you a principal protection and gives you a smoother return over a period of time. Whereas the affluent customers continue to be focused on the ULIP-type of a product; which they understand the market, they understand NAV and they are overbanked segments any way. And they are focused on that. So overall, decline is happening, but not through a decline in the ticket size. That is the sense we are getting on ULIP.

Prayesh Jain: Okay. Sir, and secondly, on the credit protect part of the business, I understand from the FY19 breakup that you have provided, it's a small portion. But going ahead, do you see the attachment rate and the penetration moving up and that part of the business also catching up with the kind of growth that you've seen on the retail protection side?

N.S. Kannan: Clearly, it is one of the thrust areas for us. Both retail and the credit life will continue to be the thrust area. We keep tying up with the partners all the time to increase our growth in the credit life business. Profitable product, great customer proposition, a great need, so we would like to continue to be there. Satyan just mentioned that still we are dominant on the retail side if you look at the overall portfolio of the book. Only area of volatility within that could be sometimes group term type of a product, which becomes a very price-sensitive market. So we walk out of cases where we do not think the pricing makes sense for us. Apart from that, the balance two segments, we are very comfortable growing.

Prayesh Jain: Okay. Just trying to squeeze in one more. The overall growth comes from next year onwards, do you see all pieces of the business growing? Or do you think that the ULIP trajectory will continue to head down, and the protection and the other parts of the business will more than compensate for the growth or the decline in the ULIPs?

N.S. Kannan: No, at this point in time, we have not really put out a number for the next year in terms of what is the expected growth rate. But my sense is that our guiding principle will continue to be expansion of VNB. That is what we will focus on. Yes, of course, ULIP also will help in terms of absolute VNB. To that extent, we will continue to be focused on it.

Maybe at some point in time during the next year base effect will start working for us.

And the other thing is that if you look at some of the product next year, one thing I wanted to tell you that, generally, if you look at within the savings business, non-ULIP businesses tend to be more profitable than the ULIP business, though the ticket sizes may be different. So we will put these equations in our planning and then try and look at overall VNB expansion. That is the way we would like to plan.

Rishi Jhunjhunwala: A couple of questions, one on solvency and the other one on cost ratios. So first on the cost ratio, so you have said that cost to TWRP for the savings line of business has gone down by about 90 basis points, nine month-over-nine month. I am assuming that represents almost like 80%-85% of our business. So that also implies that for the protection business the cost ratios have actually gone up significantly higher over the same period. So just wanted to understand, I mean, why the ratios for that business gone up so substantially.

Satyan Jambunathan: When we are looking at cost to TWRP, it is still a kind of a blended metric. It includes both new business premium and renewal premium. On the protection business, the renewal premium is not still large enough to provide that kind of overall cushion and absorption. So to some extent, given that new business is dominating, you will see the cost ratios of the protection business go up until such time as the total revenue push stabilizes. It's not a reflection of inefficiency, it's actually a reflection of the mix between new business and renewal business.

Rishi Jhunjhunwala: Understood. Fair enough. And secondly on the solvency. So if I look at, say, from 2018 to 2019, solvency dropped from 252% to 215% despite, of course, APE growth was not there, but we were substantially increasing our protection business. Same is playing out this year as well, pretty much similar way, but the solvency has hardly deteriorated. So just wanted to understand, are we, like, either reinsuring in a different way? Or what is the reason that it is not reflecting in the same way considering protection still is growing at a fairly rapid pace?

Satyan Jambunathan: The biggest factor for that is dividend payout. Until last year, dividend payout used to be much higher. This year dividend payout has been lower. So effectively, we are retaining more of the profit to fund solvency requirement. That's why the decline has been slower.

Rishi Jhunjhunwala: Understood. And there's no change otherwise in your reinsurance policy or anything of that sort?

Satyan Jambunathan: No, at least from a capital management perspective, we manage reinsurance in a way so as to nearly maximize credit available.

Udit Kariwala: Sir, as you mentioned that the ULIP business or the linked business, the cost ratios are one of the best in the industry, that I presume is premised on the fact that the ticket size for your company is higher than any private peer. And we are seeing that there is no growth coming in, in that segment, in fact there is a decline. But some of the other peers which are getting into lower ticket-size segment are being able to capture some incremental flows. Is there a strategy, as you said, at this point you guys haven't thought about reducing the ticket size. But if you do, where would the cost ratios move up? Because then it should ideally move up. And

what's the implication on the VNB margin for the same, given it's 70% of your overall mix?

N.S. Kannan: I will give my explanation then Satyan can supplement. One is that, I want to say that not just savings, even on an overall basis, we are one of the most efficient companies in terms of cost ratio across the industry. My sense is that we will be number two in the overall cost ratio, forget about savings or otherwise. We split it and give it savings and protection so that you can understand where we are investing and where we are harvesting. That is the way in which we would like to split it so that we can give you a sense that in the desirable business, we continue to be investing. We want to give that picture.

Now coming into savings itself, if you look at it, it's not a ULIP ratio, it is a combined savings ratio of the entire business it includes ULIP, it includes non-linked savings products as well. And there, if you look at it, actually we have seen a 70% growth year-on-year on some of the non-ULIP businesses and despite that, our cost ratio has come down, including that business. So going forward, I don't think ticket size is an issue at all because actually our ticket sizes have reduced in that business. So I don't think that we need to really budget any cost ratio increase just because our ticket sizes may be different in the future.

Avinash Singh: Sir, first, again, I think it's a repeated question that looking forward to FY21, I mean, how is the VNB growth trajectory going to be? Given that, okay, I mean, the drivers could be the top line growth, the product mix change, persistency and cost. On the persistency and cost, I hope that we are very, very near to optimum. So it boils down to the product mix changes and top line. So I mean, how do you see it in FY21?

Now coming to FY20, how much is the scope for the improvement in margin because your actual cost experience so far being lower than the assumption for the full year? And also, given that the industry has seen a strong growth in the last two month on the back of push from the channel on account of refiling or the filing of new product, do you see a chance of, again, a slowdown in Q4? So two question, one for FY21, one on the FY20.

Satyan Jambunathan: If I were to look at the current year VNB, which is more of the cost question. Right now, we have nine months of realized cost experience and three months of forecast. So we are closer to what we think we will end up the year with. What we have taken into account, like Kannan described earlier, before actually putting out the margin, we do a testing of whether indeed it will be sustainable through to the end of the year even under certain scenarios. Otherwise, to that extent, we smooth it through the year. As we speak now, cost estimate through the rest of the year, we are quite comfortable with. We think that the margin of 21%, in that context, can still be sustained. So the cost forecast and, therefore, the margin outlook for the fourth quarter or over the rest of the year is still consistent with what we have seen for nine months.

Looking at FY21, where the VNB growth can come from, again, I will go back to what Kannan said, that there is still a meaningful opportunity for protection growth contributing disproportionately into the next year as well. And the idea is that as we are progressing through the year that we start getting a bit more of savings growth in as well. The first priority on the savings side since last year has been to diversify our customer base, to make our savings growth more resilient, to make it less volatile. And at

the very least, if you look at the last 12 to 15 months, our growth rate month after month are far more stable than they used to be before.

So to that extent, the early part of our diversification strategy seems to be settling down, which actually puts us in a good place to go after growth as we go into the future. How much of the VNB growth in the next year will come from each of these element is a hard one to say at this point of time. But the overall VNB growth objective of 20% to 25% that we are setting for ourselves, also, we would like to achieve in the next year.

Your third question on industry growth in the short term, driven by product withdrawal. Any product withdrawal creates excitement and has only temporary effect. To what extent it sustains, we will have to see. Some of it tends to be just an advancement of purchase as well. It's very hard to actually predict what the fourth quarter's growth will be. Most of the product-related growth that we saw in this quarter came from non-linked savings products. And it came from companies that had a far greater focus such as LIC. We will see how that emerges into the last quarter. Even when we saw the December numbers after November, we saw some amount of moderation already coming through in the numbers.

Avinash Singh: And is this a product refiling leading to some sort of a withdrawal of your products? I mean, if any?

Satyan Jambunathan: Fundamentally, we have never driven a scarcity sale as a driver. We have not been led more by a product mix output. Our fundamental approach has been, what new propositions we can introduce. Kannan mentioned early on in his talk that we have launched these new products. So we actually think that putting new propositions

on the table is a more sustainable way of delivering growth than just by driving scarcity.

Sanket Godha: If I look at the high-margin products, annuity and the protection, put together it is 16.2% in 1H and in the third quarter it is 14.1%, for nine months it is 15.4%. So basically, the high-margin product compared to overall VNB margins of the company have come off, but still the margins have remained at 21%. Just wanted to understand what led to maintain the margins to the same level at 21% despite the high-margin product contribution has come off?

Satyan Jambunathan: The par mix has also gone up. So if I look at it in its entirety, the relative mix of the higher-margin products has moved up a little bit from what we saw in H1 as well. Par mix moved up in the quarter, annuity mix moved up a little bit and protection mix dropped a little bit because of the savings growth. So the margin on balance is the culmination of all of these coming through. Like I said early on, there are no assumption changes that we have made on any of the operating elements for this margin reporting.

Sanket Godha: Okay. But to the extent I understand the par margins are somewhere in mid-teens compared to 21% VNB margin what we have reported. So even if the par would have gone up, it should be margin dilutive in that sense?

Satyan Jambunathan: No, compared to unit linked, the migration has happened from unit-linked savings to the non-linked savings category, and protection has remained fairly stable. I mean whether I am talking about 14.5% or 14.1%, I don't think there is too much difference. The

fundamental shift in mix has come between linked and non-linked, between H1 and 9M.

Sanket Godha: Got it. And just on the growth point of view, in the protection, if I see the numbers, in the third quarter you did ₹ 267 crores compared to ₹ 283 crores what you did in second quarter and the ₹ 214 crores in first quarter. The growth there looks a little maybe peaking out on an absolute growth basis. And even if I look at annuity, there also, the number of ₹ 23 crores or ₹ 230 crores on new business premium terms is lower than ₹ 280 crores what you did in last quarter. So just wanted to understand whether we are seeing that run rate to be about ₹ 270 crores, ₹ 280 crores kind of in protection business to be steady going ahead?

Satyan Jambunathan: So two things, the first is that both protection and annuity segments tend to be less seasonal than the rest of the savings business. Second, if I were to see where the moderation has happened on the protection side, it has been more on the one year renewable group term that tends to be a little lumpy, so it goes up and down across the quarters. But I think the broader trend of the retail protection has been that it has gone up.

Sanket Godha: Okay. And just again, confirmation, just on respect to cost, our margins are based on nine months actual cost and projected costs for fourth quarter. And if our cost ratios in fourth quarter are better than what we are projecting then the margins could be further better? Or do you think that the assumptions what you have made with respect to cost are more realistic right now?

Satyan Jambunathan: I think it will be in the general vicinity. I don't expect too much deviation from my current forecast.

Sanket Godha: Okay. And just I have a follow-on. On margin of 21%, just one clarity I need, 21% VNB margin is based on FY19 cost? Or it is based on nine months cost plus the projection for fourth quarter?

Satyan Jambunathan: Nine months cost plus projection for fourth quarter.

Adarsh P: Two questions. First, on protection. You mentioned higher sale of limited pay this year. So will it be possible to give some sense on what the sum assured growth on the term life business would have been vis-à-vis the APE growth that you have had in the last nine months?

Satyan Jambunathan: We have not given that breakup of sum assured between savings and protection. But you will see from the public numbers the overall retail sum assured growth. Overall, retail sum assured growth for us in the nine months has been a little over 30%.

Adarsh P: Versus a 65% odd overall protection APE growth

Satyan Jambunathan: That is correct. And like I have said before, some of the protection APE growth is also coming because first half of last year we were predominantly selling regular pay. Since the second half of last year, we have been selling limited pay. So some of the Q3 moderation in growth on protection APE, is also because of the base effect becoming like-to-like from the limited pay.

Adarsh P: And it'd be safe to assume that the underlying VNB growth for protection, right, which you will probably at the end of the year give a split off, would grow more in line with the sum assured, right? It wouldn't grow in line with APE?

Satyan Jambunathan: That is correct. Given the underlying mix of whether it is retail or group, adjusting for that, you are right, the VNB growth for protection has to reflect sum assured growth more closely.

Adarsh P: Understood. And second question is on the distribution side. Obviously, we have had a lot of questions on ULIP. If you all can break up for the nine months vis-à-vis last year nine months, what is the number of ULIP policies sold? And what is the average ticket size that will be helpful.

Satyan Jambunathan: Sum of those numbers, average, we will again put out in aggregate for the end of the year. Because the challenge sometimes with each of these numbers is that quarter-on-quarter it can be a little volatile. So we are much more comfortable looking at annual trends of this.

N.S. Kannan: And I just wanted to tell you that overall basis, we are quite happy with the way the number of policies has developed during the current financial year. Because I mentioned for an answer to an earlier question, saying that we have taken some specific steps related to reactivating the distribution in the month of November last year, which resulted in several monthly policies being sold, which had increased the policy count for that period during the last year. And that has constituted the base for us now in this period. And this was a tactical initiative too, as I said, to activate the distribution. And this resulted in pursuing of lower ticket policies for a brief period.

And in the retail protection space, till September last year we had credit life product being offered under the retail product category. However, subsequently, the same was moved to a group platform. So both these

resulted in a higher base for the last year in terms of our last year nine months in terms of a policy count base. But we feel that we are quite okay with that because we have grown double-digit in the traditional savings segment and the retail protection policies, excluding the credit life and small ticket protection policies. So we are quite okay. This is the general colour I can give you. As Satyan said, at the end of the year, we will likely put out the numbers.

Prithvish Uppal: Sir, I just wanted to ask a question regarding the growth in the par and annuity products, because even last quarter the par product actually saw good uptick. So what channel is driving the growth here and also on the annuity or products? That's my first question.

Second is in terms of solvency again. So given that we are looking to grow protection at quite a fast pace. How much capital consumption is going to be, I mean would it be fair to say for protection business to grow given that we would like to keep solvency levels at probably above 200%. So just some colour on that?

N.S. Kannan: So just some colour on the first question, in terms of the par and annuity. On the participating business, it has sold largely in the non-ICICI Bank channels that is where we are focusing on the participating business. As I said earlier, that we leave it to the choice of the customers and the distributors in terms of our products they want to sell. So as a result, ICICI Bank focuses more on annuity and ULIP as well as the protection businesses. And my sense is that, by far ICICI Bank would be the best and the largest in terms of the retail protection product producers, among distributors in the country today. So par gets distributed in the non-ICICI Bank channels.

And as I said earlier, there has been a good take-up of this product in the agency channel during the quarter as well as during the nine months. As far as the annuity, we try to do it across all channels, including ICICI Bank being one of the chief primary channels of annuity. So that is how we have sort of mapped the products to the distributors in terms of our strategy.

Satyan Jambunathan: From a solvency and capital outlook, we are at 207% solvency ratio as at the end of December. The levers that we have available to manage capital from here on are dividend policy. We currently have a dividend policy which pays out up to 40% of the profit after tax. It will be up for discussion at the board, whether we continue at those levels or we modify it. The second, we have an ability to raise Tier 2 capital of up to 25% of the paid-up capital. We believe that between these two, at least for the next couple of years, we should be comfortable on capital to fund growth even with a very robust growth in the protection business.

Ansuman Deb: This is again to do with this non-linked savings business. So we have done a strong growth in this particular segment. Now in relation with our business growth target going ahead, will we continue to grow this segment in terms of quantum or, let's say, when the demand for ULIP comes back, some of these products will give way to ULIP as a product? That will be my question.

Satyan Jambunathan: So Ansuman, the way we have been looking at it is not as if one necessarily substitutes the other. One of our challenges from an outcome perspective from last year was that we were very affluent customer-focused. And since the last 12 months, we have been working

on diversifying our customer acquisition strategy. Part of this diversification implies that as the next level of affluence of customers come in, they will have different product preferences.

As we go into the future, the intention is that we continue to grow our customer acquisition of the next level of affluence. And as and when the demand for unit-linked becomes more prominent, we are still well positioned to continue focusing on that segment and get growth back. So in a way, we think both of these will operate alongside each other. Yes, you will have some amount of movement from one to the other at the margin. But broadly, we would look at these two as two different kinds of opportunity for us to go after.

Ansuman Deb: Right. So essentially, the strong growth that we have seen in the long linked savings business, some of them would remain with us and you can add on to that once we have growth from other segments as well?

Satyan Jambunathan: That is the idea.

Dhaval Gada: Three questions. First is on margins. Satyan, probably, if you could explain what is the percentage point impact for the same VNB between limited pay and regular pay in terms of percentage for the same absolute VNB?

The second question was related to distribution for protection. I understand geographically three states contribute a significant portion of retail protection today. How that is sort of moving up? I mean some colour around distribution geographically if you could, and also channel-wise, since we have been adding new partners, especially mutual fund,

distribution, national distributors, etc. So some colour around distribution for protection.

And the third one is, probably Kannan, if you could highlight, is whenever we meet them ICICI Bank, they sort of talk about their willingness to sell annuities. And they are sort of reluctant or have been reluctant to sell guaranteed savings product in the past, at least, and we have a very strong view on deferred annuities construct. So how do we sort of capture this opportunity around annuities? And any work around that you found or any new product design around that part? So those are the three questions.

Satyan Jambunathan: Dhaval, on the limited pay versus regular pay, we have not actually given segment-wise margins. Like I said, the way we have priced the two options is that on absolute VNB for the same sum assured we should be neutral. I don't think it is appropriate to seek the same margin from a limited pay as from a regular pay, becomes then actually seeking too much of profitability. So whatever the mix, given that our approach is about absolute VNB, we are targeting being indifferent to the mix between RP and LP. However, in the APE growth, the LP shows up as a stronger growth than the RP growth.

With respect to where the protection business is coming from, we have said this before, early on agency was the strongest on protection on the retail side. In between, we were able to build a very good corporate distribution for protection. This included, like you yourself mentioned, some of the national mutual fund distributors, they continue to be a very important part of our retail protection, as well as the web aggregators and other intermediaries in that space. So that, again, continues to be very

meaningful. But in the last 12 to 18 months, the biggest traction that we have seen on retail protection has been in the bank channel, particularly ICICI Bank.

ICICI Bank, for their customers they see insurance, whether it is life or health, as a very significant value addition or a new product delivery to their existing customer base. And that's reflected in the way that they have popularized the concept across the distribution. When Kannan talks about the larger orientation of ICICI Bank towards distribution, he will cover this. From a geography perspective, it is still more skewed towards urban customers, but it is slowly starting the spread beyond the urban customer base as well.

N.S. Kannan: Yes. Dhaval, to answer the question on ICICI Bank channel, let me give the lay of the land. On our side, as ICICI Prudential, we are not very comfortable manufacturing very highly guaranteed savings products. That boundary we have already drawn. High level of guarantee which probably will be justified only based on a customer lapsing, we don't want to enter into the territory. So to that extent we ourselves will not be comfortable manufacturing such a product.

Second, on the deferred annuity, again, we have been not comfortable manufacturing such a product given the kind of hedging and the other issues which are associated with the product. So that is no, no from our side, as things stand today.

Now moving on to the ICICI Bank. Clearly, they are not comfortable with the traditional products, be par or otherwise, because they feel that when the customer lapses they end up losing a lot of money, which they have not been comfortable with. And given the customer profile they have,

they have not been very comfortable selling this product. So the ICICI Bank, however, there has been a huge push or focus in terms of protection products, be it retail protection or credit life. Because they see these two products as fulfilling a great requirement for the customer which cannot be fulfilled by the Bank itself. So that is the way they are looking at this product. And the credit life product is a great proposition for the customers' families. So that is the one area.

The second area where we are focusing a lot is on annuity, largely in the form of immediate annuity products. Again, they feel that they are also one of the large distributors for NPS. They feel that it is a natural complementary product, which cannot be produced by anybody else in the ICICI Group. So they look to push us a lot in terms of selling annuity, immediate annuity products in their shop, which Amit and team have really focused on these two products.

So to answer your question on how do we look at ICICI Bank, I look at them more as a core part of our strategy of expansion of VNB. So as a result of this product mix change going forward, the value of new business produced by ICICI Bank is going to be much different in terms of trajectory from the past. In the past it was completely dominated by ULIP, very little of par anyway even then, and very little, of course, close to zero on protection. From there, as I said earlier in the call, it has been one of the largest distributors of protection in the country today. So I would look at as an executive management of this company, we would be focused on looking at ICICI Bank as a core part of our strategy for expansion of VNB. And I will happily take it. So that is the way we have sized up this issue.

Dhaval Gada: Right. And then just one follow-up related to that margin, so I didn't want the absolute or the percentage numbers, but just the differential in my sort of rough competition comes to more than 20% between limited pay and regular pay, is that correct? Or it's completely a way off?

Satyan Jambunathan: Depending on the premium payment period, it can be.

Dhaval Gada: I think, normally, we have done more Seven Pay compared to Five Pay.

N.S. Kannan: We even have longer pay, so yes, it can be, depending on the term, it can be.

Nidhesh Jain: Sir, on the protection, we understand that one of the reinsurer has increased the pricing on reinsurance. So do you see impact on our pricing on protection policies going forward? And what impact that will have on our assumptions?

N.S. Kannan: First of all, sorry, you got cut out earlier in the call, and thanks for coming back and asking this question. See, I will take it in two parts. On the specific reinsurance part, I will ask Satyan to answer. But in terms of the larger issue of competition and the pricing of protection, I want to say that we can never take away the effect of competition on pricing of protection. But we feel that based on our own internal conversation, we need to keep a few things in mind. One is that penetration of protection product is still low in the country. And we do see a multi decade opportunity in terms of protection growth. That is our premise in this sector.

Distribution largely still remains captive to an insurance or tied to an insurance company. And so that is another thing which we keep in mind. It is only the online market, which is pure open architecture. That is the way the market has evolved. And the competitive action has always been there, especially in the protection, if you look at about six, seven players, there has been a heavy competition in the protection space.

And I want to tell you that we have put out a fantastic growth in the protection despite our not being the cheapest amongst the large players. That is what I want to say. So we want to say that just not the pricing, but the brand, the claim payout experience, the ease of buying the product itself in terms of technology and the smooth process, etc., they play a much larger role in our view, rather than just the pricing. So that is the sort of positioning we have to this market that is the kind of premise we have in the market.

And our own computations, especially if you look at the six months based on the numbers which have been put out on our own estimate, it looks like we have a retail protection market share of close to 30%. So that is something which we have been able to achieve despite us being not the price leaders in the industry. So anything we do in the context of reinsurance, which Satyan is going to be explaining, we believe that this is going to be continuously our basis of competing in this market.

Satyan Jambunathan: Moving on to the question of reinsurance and what's happening in that space. I think we should go back to the context and look at where term life price in the Indian market currently is. We know it is one of the cheapest across the world. We know that the price is so finally tuned that it is probably more suited to the best mortality

profiles in the country. What we are also seeing, not just for us but across the industry is that now distribution is going deeper from a geography perspective. So the underlying mix of customer profiles is changing quite rapidly from the first wave of where retail protection started.

What we understand is that almost every reinsurer operating in the market is having conversations with almost every insurer operating in the market on how this change of customer profile should be reflected in the price. We think this will take a few months to become clear as to what the outcome is. But my sense is, because we are all selling in a similar market, all of our changes in price when we do it, if we do it, should be consistent. Rather, it's a question of when not if, it will happen. But it will be consistent with each other.

And as long as, again, I go back to what Kannan said that given the underlying demand dynamics for the proposition and the fact that our brand is fairly strong, as long as we are in the general range of the others competitively, we think it should still be all right. So my own view, overall, price will change, price will increase. When? We have to see. By how much? We have to see. But clearly, reinsurers are now starting to see how they can reflect the wider penetration of protection distribution from what it used to be in the past.

Nidhesh Jain: Sure. Sir, does it mean that the experience in the protection policies as the industry is inferior then what we have been pricing or that is not the case?

Satyan Jambunathan: So it goes back to the same thing, Nidhesh. If I were to compare experience with where the pricing was intended to be, it is no worse. But because there are now more and more of our business coming

from customer segments beyond that, overall experience is ending up being worse than what reinsurers expected. That is the primary trigger why they are starting to have this conversation on price change.

N.S. Kannan: Yes. Thank you. This was quite a long call. As one of the participants said I think this timing ensured that the call was long, and the participation was quite nice. Thank you so much to all of you for patiently listening to the call. And we hope that we have answered all the questions you had to your satisfaction. But having said that, all of us are always available off-line for any further questions or any further meetings you may like to have with us. Thank you, and have a great evening. Bye-bye.